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FOREIGN AFFAIRS REFORM AND RESTRUCTURING ACT OF 1997 AND FISCAL YEAR 1998 INTERNATIONAL AFFAIRS BUDGET REQUEST

HEARINGS AND MARKUP

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, EXPORT AND TRADE PROMOTION

THE

SUBCOMMITTEE ON INTERNATIONAL OPERATIONS

AND THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

HEARINGS
FEBRUARY 26 AND 27, MARCH 6, 12 AND 13, AND APRIL 9, 1997

MARKUP
JUNE 12, 1997

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AGENCY FOR INTERNATIONAL DEVELOPMENT (AID): BUDGET REQUEST AND OVERSIGHT

WEDNESDAY, FEBRUARY 26, 1997

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, EXPORT AND TRADE PROMOTION,
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room SD–419, Dirksen Senate Office Building, Hon. Chuck Hagel, (chairman of the subcommittee), presiding.

Present: Senators Hagel, Thomas, Grams, Biden, Sarbanes, and Wellstone.

Senator HAGEL. The subcommittee will come to order.

Today the subcommittee meets to consider the President's budget request for Fiscal Year 1998 programs under the jurisdiction of the Agency for International Development. The Hon. Brian Atwood, Administrator of AID, will testify.

Mr. Administrator, welcome.

Mr. ATWOOD. Thank you.

Senator HAGEL. The Ranking Minority Member is on his way. Senator Sarbanes will be here. His counsel has suggested that we go ahead and get started. But he will be here at any moment and we will get through some of this in the meantime.

Here he is. It's magic.

Welcome, Senator.

Senator SARBANES. Right on cue?

Senator HAGEL. Right on cue. It is the way we planned it, of course.

The President's Fiscal Year 1998 budget requests $7.14 billion for AID managed programs, an increase of more than 6 percent over the Fiscal Year 1997 appropriated level.

Significant among the funding levels requested is a large increase over last year's level for population programs and a $45 million cut in child survival programs. The President is also seeking new authorities in this year's budget, a highlight of which is the proposed Partnership for Freedom for Russia. There have been few details about how this program will operate. So, we look forward to your views, Mr. Administrator, about this program.

The President's budget is also seeking the creation of a new AID administered loan program and several new regional democracy programs.

Mr. Administrator, as you know, I am new to this subcommittee and to this body. I surely do not claim to be an expert on development issues nor foreign aid. I want to let you and your organization know that I will look at everything closely, but that I come to this with certainly no ax to grind against your programs or any Federal Agency. I think that we all want to insure that the taxpayers' money is being used wisely, efficiently, and effectively, and I know that, too, is your objective and your goal.

But I also must say that AID does have a track record. For more than 35 years, AID has been providing billions of dollars annually to assist in the development of countries.

Regrettably, many countries have not benefited from foreign aid, and AID has too often found excuses, primarily cold war considerations, for the lack of success in its programs. I might add that this was during both Republican and Democratic administrations.

But the cold war is over, and this Congress, in tandem with the President, must make some fundamental decisions about where to dedicate scarce resources in the next century. Recommending cuts in AID's budget should not make one an isolationist, especially since, according to AID's own self-assessment, ''Despite decades of foreign assistance, most of Africa and parts of Latin America, Asia, and the Middle East are economically worse off today than they were 20 years ago.''

That is a rather dramatic statement. While it is correct that the international affairs budget represents just more than 1 percent of the entire U.S. budget, it represents about 8 percent of our Government's discretionary budget. Further, about 5 percent of the DOD budget, more than $12 billion, is dedicated in support of U.S. humanitarian and development goals worldwide.

But America's support for these programs should not be driven by ledger sheets. Rather, it must be determined by how they directly contribute to our national security, our national interests, and whether they perform as advertised.

Supporters of a larger international affairs budget operate on one key assumption: That all the funds currently dedicated to international programs are being used effectively and efficiently. I am not convinced that this is accurate. I recommend Majority Leader Trent Lott's recent op-ed piece in the ''Washington Times'' which makes an excellent argument that the Clinton administration must further prioritize its budget resources rather than simply demand more money from taxpayers.

As I stated previously, AID has a well established track record. If U.S. assistance has not shown benefits in a particular country in 3 decades or more, perhaps the aid should be discontinued.

Finally, and this goes directly to the point of prioritization, let me state that I know that Secretary of State Albright has pledged to work with this committee to achieve a fundamental reorganization of our foreign policy apparatus. I support this consolidation effort. Many of these agencies were born to meet the challenges of the cold war and have outlived their usefulness; and, to the extent that savings can be achieved from restructuring, that will benefit all of us.

Mr. Administrator, I want to thank you again for appearing before this subcommittee. I look forward to your testimony and I am

anxious to discuss with you the details of the President's Fiscal Year 1998 budget request for AID programs.

I might say before I recognize my distinguished colleague, Senator Sarbanes, you and I, Mr. Administrator, had what I thought was a good opportunity to spend some time together looking at some of these programs in more general ways. We talked philosophically, and I think you know from that meeting that I certainly am a supporter of foreign aid and foreign assistance. Where we can make the most use of that aid, as I said at the opening of my statement, is what we are all about and what we all certainly want to focus on.

So, I, again, appreciate very much you coming before the subcommittee today.

At this point, I would like to recognize my distinguished colleague and Ranking Minority Member, Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman. I am pleased to join with you this afternoon in welcoming USAID Administrator Brian Atwood before the subcommittee. I have known and worked with Brian Atwood for many years now, and I have a great respect for all he is trying to do in a very difficult environment. Despite those difficulties, I think he has achieved an impressive degree of success.

In fact, only yesterday, over on the House side Chairman Gilman of the House International Relations Committee said, and I quote him, "Brian, you've revived an Agency that was in critical condition. Today AID is smaller, leaner, and on the brink of real reform in the way it does business."

I share that view, that Brian Atwood has really turned the Agency around. Now I know a lot of tough questions remain and many will be asked. But I think we ought not to lose sight of the accomplishments of this very able administrator in the course of his tenure over the last few years at AID. I assume we will have some chance to go into that in some detail in the course of this hearing.

I also want to note that this is our subcommittee's first hearing in the 105th Congress. I am pleased to serve with our new chairman and wish him well as he undertakes these responsibilities. We have had an opportunity to discuss amongst ourselves the prospective work agenda for the subcommittee, and I look forward to working with you, Mr. Chairman, in the months ahead as we address our responsibilities.

Let me just say at the outset by way of just a couple of comments on the substance of what we are going to be dealing with today that it is my strong view that the United States has a clear national interest in promoting sustainable development around the world. I start with that as a basic premise. I do not think it is a luxury, I do not think it is an add-on, I do not think it is a supplement. It clearly serves our moral and humanitarian instincts, which is quite important when you try to develop a foreign policy in a democracy that will be supported by the populace. But it also clearly serves our political and economic interests as well.

Foreign assistance spent at the right time is critical to heading off violent upheaval, famine, epidemics, the spiral of poverty, rapid population growth and environmental degradation. All of those are problems that are much easier either to prevent or to control in the

early stages than they are to reverse or to stop after the fact. Therefore, much of the work that is put within the charge of Administrator Atwood is of a preventive nature or ought to be of a preventive nature. I think it should be perceived in that way by our Nation's policymakers.

I am interested in hearing you expound on the budget. I, for one, think that the administration needed to respond to the successive decreases in resources committed to these important objectives over the years, and my perception of this budget is that it at least tries in part to do that. I hope that it will find support here in the Congress.

AID under Brian Atwood's leadership has taken a number of initiatives, many of which have proven quite successful. He has tried to reorganize his Agency, make it more effective, more streamlined. It has commanded general respect and approval from many observers. In fact, I know people who headed commissions examining AID only a few years ago who recommended that it be done away with who now take the position that such significant advances have been made in the course of this administration by Brian Atwood that the Agency is really picking up and needs to be supported and urged on to do its work.

So, Mr. Chairman, I look forward to an interesting hearing here today as we launch the examination of the foreign assistance budget. Thank you very much.

Senator HAGEL. Senator Sarbanes, thank you.

I note that our distinguished Ranking Minority Member of the full committee is with us, Senator Biden. Welcome.

Senator BIDEN. Thank you, Mr. Chairman.

Senator Sarbanes said he knows people who have spent years examining this. I have known people who have been here 10 years and never got to chair a committee. What the heck is going on here.

Senator HAGEL. When you live right, Senator, that is what happens.

Senator BIDEN. I will say this publicly, Senator. I think there must be something in the water in your State. You and Kerrey are both war heroes, both are here, both have been paid attention to from the time they got here. I don't know. It must be something in the water.

Senator HAGEL. I just do whatever Bob Kerrey does.

Senator BIDEN. Oh, don't do that.

At any rate, Mr. Chairman, I have a brief opening statement because this kind of tolls the gong for what is going to be, as we all know, a major piece of what will be a big debate here, a continuation of the debate on the reorganization of the State Department.

Like it or not, you are in the mix and you know that, Brian, from your years of being here and your years of doing the fine job you have done at AID.

This week the committee begins a dialog, a dialog about both the organizational structure and the resources required for American foreign policy. On its face, the discussion may appear to be only about organizational charts and budget submissions—in other words, the ordinary business of government. But the central question that I think is facing us is far more profound, and that is how

do we equip our Government to advance its foreign policy interests in the post-cold war era?

Two years ago, the chairman of the Foreign Relations Committee challenged the existing order in proposing the reorganization of the foreign affairs agencies of the U.S. Government by consolidating them into the Department of State, including your organization, Brian, as you are painfully aware.

Offered in the midst of a Presidential election cycle, it was perhaps inevitable that the Congress and the President were not able to reach any agreement on this reorganization effort. But continued stalemate seems to me not to be inevitable. So, I join the Secretary of State in stating unequivocally that I have an open mind about any reorganization proposals. In fact, I plan to work closely with Chairman Helms and the President to try to reach common ground.

I have had some discussions already with Chairman Helms to indicate to him I sincerely am interested in seeing if we can work out some kind of reasonable reorganization proposal. My willingness to consider reorganization does not, however, imply a willingness to accept any proposal merely because it carries the label of reform. I do not think that is Senator Helms' intention. But I want to make it clear at the outset. We are going to hear about the details of your budget, but you are going to be talking about a lot more after your budget is discussed with us here—not you personally, but the Agency.

After several years of retrenching, both militarily and diplomatically, in the wake of the collapse of the Soviet Union, our reform efforts should be driven not by the imperative of budgetary savings, as important as they are, but by the need to ensure that we have a robust diplomatic presence around the world, an aid program, and a foreign policy program overall to protect the gains of our cold war victories.

For 4 decades, all energy was focused on the super power struggle. Today we have a much broader agenda: Establishing a new security relationship in Europe and Asia, controlling the proliferation of dangerous weapons, combating global threats of terrorism, narcotics, and crime, promoting democracy and advancing our economic interests and the economic interests of Third World nations.

As we move forward in the coming weeks and months, I will pose the following questions, my own benchmarks, if you will, for reforming the State Department. First and foremost, are we organizing our foreign policy infrastructure to meet the challenges of the post-cold war era? In answering this question, we should look not only at the organizational structure but also at the personnel structure.

For example, during the cold war, the State Department emphasized expertise on the inter-German border, and on the science of Sovietology. We talked about criminologists, we talked about all those things that do not now seem very relevant and are not, in most cases, relevant anymore. But we have some very brilliant people who are still around who are experts in those areas, and we placed a very high premium on these professionals.

Today it seems to me we must have a high premium on professionals skilled in counter terrorism, counter narcotics, economic growth, and in areas that we had not focused on in the past nec-

essarily. Unfortunately, when it comes to supporting diplomatic readiness, we barely, in my view, act like a super power.

Second, are we providing adequate resources to the challenges we face? We speak, sometimes with excessive triumphalism, of our role as the world's only remaining super power. But, again, when it comes to supporting our diplomatic readiness, are we really such a super power?

Resources for international affairs have declined significantly in recent years. Funding in Fiscal Year 1997 is 25 percent below the average of the last 20 years, and some 30 percent below the spending levels of a decade ago.

It is a delusion, in my view, to believe that America can remain actively engaged in the world if we deny the President and the Secretary of State the resources necessary for the conduct of American foreign policy.

The President's request should be regarded, in my view, as the minimum needed to protect our interests abroad, around the globe. Our discussions should be focused on how best to deploy those resources.

Third, have we prevented the bureaucratic burial of important elements of our diplomatic arsenal? It is one thing, Brian, for me to merge AID and the State Department. I have an open mind about that. I have an open mind, and you know that I have been a defender of your Agency in not wishing to see that happen, along with ACDA. But I have an open mind to it being merged in the State Department depending on how it is merged—if it is merged where you are a co-equal with every other geographically distributed source of authority in the State Department, if ACDA is merged in a way that it receives and has direct access to the President of the United States and does not have to go through three under secretaries to be known. That is how you all got outside the Agency, outside of State, in the first place.

So, it depends for me, in this third criteria, on at what place, if you are going to be re-merged, in effect, you will be. Where will you sit?

One of the earlier consolidation plans, for example, would have placed the functions now performed by ACDA deep within the State Department, an unwise and unnecessary diminution of a critical function. I am deliberately not speaking about your Department at this moment.

As envisioned by President Kennedy, ACDA was created to insure a strong and independent voice for arms control, a mission that is no less urgent today. As a matter of fact, I would argue that it is more urgent today. It is more likely to be ongoing.

So, I am open to proposals to reorganize ACDA and USAID and other agencies, but only if the key missions retain positions of prominence and power in any restructuring that would take place.

So, Mr. Chairman, I thank you for the time. Let me conclude by saying the reelection of the President and the commencement of a new Congress with a stronger Republican majority in the Senate provides a new opportunity for all of us to work together to achieve our common objective—that is, to maintain and strengthen America's leadership in the world.

I know the committee will conduct subsequent hearings on these issues of reorganization, and I look forward to working with you, Mr. Chairman, and with the chairman of the full committee toward that end. But for today, I recognize that we are focusing solely on the AID budget, and I will have a number of questions regarding the AID budget request at the appropriate time. But I think at this first hearing it would be a bit of a fiction to ignore the issue underlying all of this is a major question of reorganization.

I thank you for your time, and I thank you, Mr. Atwood, for being here. I look forward to hearing what you have to say.

Senator HAGEL. Senator Biden, thank you.

Let me now ask our distinguished colleague from Wyoming, Senator Craig Thomas, who also as many of you know is the chairman of the Foreign Relations Subcommittee on Asia and the Pacific Rim, if he has a statement.

Senator Thomas?

Senator THOMAS. Thank you, Mr. Chairman. I do not have an opening statement. I am interested, however, in what is done here and in much that you've talked about, Senator.

I notice that the first sentence of sort of an overview says, "USAID is the largest and principal U.S. Government Agency implementing American economic assistance programs overseas." I hope it also is implementing foreign policy overseas. I think those two things go pretty closely together.

So, I will look forward to the administrator's remarks.

Senator HAGEL. Thank you.

Senator Wellstone is here. Let me, before I ask you, sir, to offer your remarks and opening statement, announce that I understand we are going to have a vote shortly. So, if it is all right, Senator Sarbanes, what we will do is I will ask Senator Wellstone for his remarks and will ask my colleague, Senator Thomas, to preside while we kind of tag team this. In that way we will just keep it going.

Administrator Atwood, is that OK with you ?

Mr. ATWOOD. Yes, sir. Certainly.

Senator BIDEN. Good answer.

Senator HAGEL. Is that the way it is supposed to go around here? Then thank you.

Senator HAGEL. Let me recognize our distinguished colleague from Minnesota, Senator Wellstone.

Senator WELLSTONE. Thank you, Mr. Chairman. I will be very brief.

Let me associate myself—I was going to say "in part"—almost all the way with the remarks of my colleague from Delaware. The one area that I want to focus in on, and these are questions that I want to pursue along with some written questions, is that I, Brian, have a particular focus on Russia and the former Republics of the Soviet Union.

My father fled Russia. I visited his home and have spent some time there. I wish I could sample the whole world. I am interested in the whole world. But I would like to focus in on two questions. One is whether the Partnership for Freedom Program can, in fact, connect and make a difference in terms of the enormous economic

and political problems that Russia and some of the other republics are faced with.

The other thing I am interested in is this. I note that you are deemphasizing the technical assistance and emphasizing something called "grassroots civil society programs." I am going to be interested, to use a fancy term, in your operational definition of that to learn specifically what you have in mind concerning reordering of priorities.

Again, it seems to me that this really goes to the heart of the critical mission of AID, and I would like to have some discussion with you on that.

Thank you, Mr. Chairman—wherever you are.

Senator THOMAS (presiding): I am right here.

Mr. Administrator, welcome. If you would like to proceed with your statement, we would be happy to hear it.

STATEMENT OF HON. J. BRIAN ATWOOD, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. ATWOOD. Thank you very much, Mr. Chairman. I want to thank the Senators for their kind remarks and tell this committee that I really look forward to working with this committee. I want the committee to pass an authorization bill that the President can sign. I certainly understand, Senator Biden, the importance of the issues you raise. I know that our Secretary of State indicated when she came here for her confirmation hearings that she is going to keep an open mind on these issues as well. I want you to be assured that I certainly keep an open mind on these matters. I believe very strongly that these reorganization questions are a lot more complex than meets the eye and, therefore, it seems to me important, as Senator Helms indicated in his discussion about these issues with Secretary Albright, that we be given some time downtown to come up with our own proposals.

Sometimes the law of unintended consequences does come into play when you move boxes around. I think that, given the fact that the President has responsibility, along with the Secretary of State, for carrying out foreign policy, it is important for us to make sure that we are proposing something which would enhance our coordination, enhance our efficiency, enhance our capacity to do work in the post-cold war world, which does present different challenges to us, and I have confidence that the administration will come up with a proposal.

For my part, for example, looking at where USAID is today in the structure, theoretically—not just theoretically—under the law I am the Acting Director of the International Development Cooperation Agency. It is interesting. It was enacted back in 1979, under the Carter administration. For 2 years, or actually a little less, there was actually a director who was confirmed by the Senate who served in that capacity. The person who serves there as acting director, the Administrator of USAID, has fairly broad powers within the executive branch to coordinate development activities.

I think, frankly, the idea was a good one. But it has become moribund. The position has not been filled for 14 years. So, therefore, obviously something needs to be done.

I have said publicly that this question of who the Administrator of USAID reports to is something that should be discussed. I mean, theoretically I report to the President under the IDCA law, and I obviously work under the foreign policy guidance of the Secretary of State.

Again, in the years that I have been in this position I have never sought to go to the President without telling the Secretary of State. I do not think I would be here today if I did that. Therefore, I certainly do not have any objections to reporting to the Secretary of State.

I do think that with respect to Development Assistance, it is important to recognize that we do support the foreign policy of the United States in a programmatic way, that we are a specialized agency and that the person responsible, whomever it is, if it is me or whomever, needs the management tools necessary to get the job done.

As you indicated, Senator Biden, there is a need for specialties in our foreign policy. We need experts nowadays on terrorism, something that we might not have thought much about before, and on narcotics. We also still need experts on agriculture and education and the kinds of work that we do, micro enterprise lending and the like, at USAID. I think one of those management tools has to be the personnel structure that would enable us to reward people for achieving results and who have the technical capacity to undertake the projects.

I also think it is important, in light of the pressures of the every day conduct of our foreign policy, that we make a decision that we are going to make a long-term strategic investment in development assistance and that under the current law we protect that development assistance so that it is spent in ways that the Congress wishes it to be spent; so that, all of a sudden, because you have a crisis you do not pull money away from this strategic investment and put it into something that is of more short-term nature—another crucial issue, it seems to me.

A third issue is we have succeeded in leading the international community to the point where, in 1960, we were providing 60 percent of all of the development assistance provided in the world. Today, it is only 17 percent because of our success in leading the donor community. So, I think, especially given the kinds of development challenges that are out there today, it is important to continue that leadership role and we should not in any way inadvertently undermine it.

That is all I would say about this issue.

I ask the committee on behalf of the administration, to give us time since you are talking about something that will influence the next century. I know you have a legislative timetable to get an authorization bill passed. If we cannot meet the requirement of getting our suggestions in before your legislative timetable is up, at least you understand when we are consulting with you that we are indeed working with you assiduously on these issues. We plan to come up with something, I certainly would hope that we are not pressured. This is because we have tried it the other way. We have tried it with a proposal coming from up here and going downtown.

Normally, legislation is proposed by the administration and considered very carefully.

This is not the only way it can be done. I know that you can propose as well. But I think in terms of reorganizing the executive branch to make it more efficient, which I concede needs to be done and is long overdue—I agree with that—it is important for the executive branch to propose and for the Congress to dispose.

That is all I want to say about that issue. I realize there may be other questions which I will be happy to answer. I really came here today to defend the President's request.

I think it is extremely important that the Congress give adequate consideration, and I know you will, to the request for an increase in the 150 account, to $19.4 billion.

I was looking at some statistics and I realized there is some controversy about the extent to which the 150 account has been diminished over the years. The fact of the matter is there was a big increase for the Middle East in 1985 and that it is probably unfair to use 1985 as the high water mark. But if you use 1986 and eliminate that increase, we have still seen about a 32 percent decrease in the 150 account.

I must say that I think it is a legitimate question as to whether or not we are serving our interests.

I happened to attend a briefing for freshman Members of the House yesterday with General Nash, who was the U.S. commanding general in Bosnia. What General Nash said at the beginning of his briefing was: Mr. Atwood, I want to thank the Agency for International Development for what you did in Bosnia to help our soldiers.

The fact of the matter is that we help our soldiers in more ways than simply working on a reconstruction program in a place like Bosnia. But increasingly we are doing that kind of work and we are the only Agency in town that has the capacity to do that work. But in addition, hopefully we are contributing to crisis prevention and preventing our soldiers from being introduced into other parts of the world where—if we cannot do something about it—nations are on the verge of failure.

This budget request on the part of the President helps our Agency, I think, achieve equilibrium. We have gone through an awful lot in the last few years, as you know well. The Fiscal Year 1996 cuts in our budget were particularly severe. We have had to have a reduction in force and there were some questions as to whether or not we were ever going to reach that period, that point of stability wherein we could say now it is time to begin rebuilding in a sensible way.

This request calls for an increase in USAID—managed programs of $476 million, including $292 million for the Eastern European and NIS programs—and I would be happy to get into more detail about the new NIS program; $135 million for the Economic Support Fund, which includes a lot of resources for transitions in the Middle East and Latin America, and the like; and about $66 million for Development Assistance, a big part of which is for food security, an issue which everyone—State, USAID, and the Defense Department—is focusing on. This is because we recognize more than ever before that food security issues, in Africa in particular, are causing

tensions that could lead to conflict, that could lead, then, to our troops being introduced into warfare.

This is why the Defense Intelligence Agency looks into issues such as the impact of the water hyacinth on Lake Victoria, which is choking the fish of Lake Victoria. It is making the lives of the people, about 30 million people, who live in that area and depend on that lake, much more tenuous. If they move and become refugees or displaced people, the military may have to go in as they did next door in Rwanda to handle that problem.

That is why increasingly our national security establishment is looking at these kinds of important issues.

I feel very proud of some of the things that we have been able to accomplish despite the fact that we have had these kinds of budget cuts. This year, the OECD's Development Assistance Committee adopted a report 21 nations negotiated for over a year, a report called, "Shaping the 21st Century: The Contribution of Development Cooperation." It sets goals for the next 20 years. It talks about reducing by one-half extreme poverty.

There are 1.3 billion people living in the world today on less than $1 a day, or about $365 a year. It talks about providing universal education to everyone. Girls are certainly excluded from that in most of the developing world. It talks about providing family planning services to all who want them. It talks about every nation having a national environmental policy. It goes on to set other goals.

This is the way we have now reformed USAID to work. We establish the strategic objectives and goals of the Agency. We expect to hold our people accountable for results, and that is basically what the entire donor community has done. Most of these objectives are objectives that we have devised, we, the United States of America.

Why are we, in this particular field, the development field, the indispensable nation? We are the indispensable nation not only because we have the best university minds in the world, we have the best private voluntary organizations in the world, we have a rich vein of experience and development in our own right here in this country; but most importantly because we are the world's optimists, we think things can get done.

We do not think that we are the victims of our history. We think we shape our history. This is unique, and this is why I think we are indispensable.

I am also proud about the fact that we can come here and ask you for the first time in 4 years for a decrease in our operating expense budget. We have done that by overhauling the Agency. A lot of this has been mentioned before, but let me be specific about facts.

We have reduced our staff since 1993 by 2,700 people. We have cut senior management by 38 percent. We have reduced the time it takes to design a project by 75 percent. We have reduced our regulations by 55 percent. We have closed 26 overseas missions and we will close approximately 6 by the end of the next fiscal year.

We are one of the pioneering agencies in implementing the Government Performance and Results Act. I feel very proud that all of these changes have given us the reputation of being a well man-

aged Agency and, more importantly, have saved money for the taxpayer and enabled me to come up here and ask for less money this year than we did before.

Senator BIDEN. Excuse me.

Mr. Chairman, we are about out of time.

Senator THOMAS. Yes, we are about out of time.

Senator BIDEN. Brian, this is a heck of a thing to do to you, but you have sat back here and know how it is.

Mr. ATWOOD. I have a written statement, Mr. Chairman, that I can submit.

Senator BIDEN. No. I would like to hear all of your statement.

Senator THOMAS. If we could, we will just recess for a few minutes.

Senator BIDEN. If you don't mind, we will recess for just a few minutes so that we do not miss the vote.

Senator THOMAS. Let's do that, then. It's a management decision. [Recess]

Senator Hagel (presiding): Are you ready to continue?

Mr. ATWOOD. Yes, indeed.

Senator HAGEL. I guess that question should be put to me.

I understand my colleagues have had a chance to make opening statements and you have not—or you have?

Mr. ATWOOD. I have not quite completed my statement, Mr. Chairman. I neglected to say at the outset of this summary of my written statement that I would ask that my written statement be included in the record as if read. Often those written statements are a lot more judicious than the ones that you speak off the top of your head.

I did have just a few more comments, if I could, and, in particular, since you are back I would like to comment on some of the things that you said. I want to tell you that I also enjoyed the meeting that we had.

I have to tell you that, while you plead too much ignorance of these programs, what I was impressed with was the extent to which you do understand these programs and, more importantly, the extent to which you understand the international situation that we face, having been in international business. I am delighted that you are assigned to this committee, Senator, and I will just say that as a personal statement first.

Senator HAGEL. Thank you.

Mr. ATWOOD. You made the point that many countries have not benefited from our foreign aid programs over the years. I could not dispute that. I think that we have made some major mistakes in a lot of countries and some of it is attributable, as you suggest, to cold war considerations. But others are attributable to the fact that we have been involved in a long-term learning process here. We started doing this business 50 years ago with the Marshall Plan. It was a success. But working in countries unlike Europe, countries that have serious human capacity problems, education, health care, and the like, is very different.

Too often, very frankly, we have been supporting statist regimes, countries that believed that the State ought to control the economy and that the State was the most important aspect of the society.

We found ourselves in that predicament for a whole variety of reasons. There is no sense going over it now.

Nonetheless, today we insist on working with countries—there may be some grey areas here, but for the most part—countries that agree that they should reform their economic system to become a market economy and agree that they should be democratic.

We have gotten out of 26 countries already, as I've mentioned, and many of them were countries that were not good, quality partners of the United States because they refused to take this pledge to reform.

But over the years, frankly, Mr. Chairman, despite the fact that we have had our failures, the combined effort of the international community to be involved in this business has had us achieving many, many results, including cutting the infant mortality rate around the world by half; increasing the average age of citizens in the developing world from 42 to 62; providing 1 billion more people with clean drinking water; increasing the literacy rates by three-quarters in the developing world, providing enough food for people to eat through the Green Revolution, which has also helped our own farmers; eradicating smallpox, which has saved us something like $280 million a year that we were spending on immunizing our own children; and we are on the verge of eradicating polio, which will save us $230 million a year in immunizations that we will not have to carry out.

I think that is a significant record of achievement. I think we can do better. I think that we can do better for less of a contribution. But I believe that the criteria that we use to decide with whom we will work nowadays is something that everyone should agree with. We want to look at that quality of the partnership. We want to look at need. We want to look at our foreign policy and our economic interests. Most importantly—and this is required by the Government Performance and Results Act that you passed here in the Congress—we need to look at the performance of our programs, and our budget should reflect performance more than ever before.

I was very pleased that this year OMB told us that we had, in fact, submitted the best budget that they had seen because it was more tied to performance than anyone else's budget.

I think we make a major contribution to American foreign policy by working in crisis situations to mitigate crises through our humanitarian relief programs, by working in transition situations such as Bosnia, Haiti, South Africa, and Cambodia, to help transit those crises, and by working in long-term development to help prevent crises. I think we make a major contribution to U.S. economic policy, international economic policy, by creating new markets for American goods. We have done this traditionally.

I will make a final appeal, Mr. Chairman, on behalf of this budget request for a balanced approach to this development assistance, in particular an appeal for agriculture. Yesterday, I was testifying before the House International Relations Committee and Mr. Bereuter from your State was very, very pleased that the agriculture industry, which includes agribusiness, farmers, and associations of various types, has finally come together, indeed, to ask for an increase of $2 billion in our foreign aid program in hopes that we can

continue to develop those new markets for our agricultural products.

Some 43 of the top 50 importers of American agricultural products were former aid recipients, countries who saw an increase in economic growth as a result of our working with them in the agriculture sector.

So, it is not simply a question of providing humanitarian emergency food relief, which we do to the tune of $800 million. It is helping them improve their agricultural productive capacity.

That is my appeal. We obviously are concerned about other parts of the budget. But we have seen over the years the agriculture sector of our program diminish from 16 percent to 9 percent. I think we are not serving our interests to see that happen. We clearly need to fund our population, environment and democracy programs. But our economic growth programs need to be funded as well, and I make that appeal, an appeal, really, for balance within the budget request that we have made.

Thank you, Mr. Chairman. I do have a written statement. I am sorry to have gone on for so long. But I have had two audiences and it has been a real pleasure.

[The prepared statement of Mr. Atwood follows:]

PREPARED STATEMENT OF MR. ATWOOD

Mr. Chairman and members of the committee, it is a pleasure to appear here today to defend the President's budget request for development and humanitarian assistance. I look forward to working closely with the committee during the second Clinton administration. It is my belief that we are entering a new and positive era in our international relations, and that our policies and approaches will be guided by the stabilizing hand of bipartisanship.

Recently, Secretary Albright noted, ''In our democracy, we cannot pursue policies abroad that are not understood and supported here at home.'' I could not agree more. In that vein, I would particularly like to welcome this committee's new members. I look forward to sharing with you today the reasons why the U.S. Agency for International Development's (USAID's) programs directly advance America's interests.

President Clinton's budget request for fiscal year 1998 includes $19.4 billion for programs in international affairs. This is a modest increase from the previous year, and represents just slightly over 1 percent of the federal budget. More importantly, this budget reverses the dangerous downward trend in funding for foreign affairs. USAID will manage $7.158 billion, or 37.5 percent, of those funds, including both USAID programs and programs administered by USAID in cooperation with other agencies. USAID's request for discretionary funding in the Foreign Operations appropriations bill includes $998 million for Development Assistance, $700 million for the Development Fund for Africa, $190 million for International Disaster Assistance, $11 million for credit programs, $473 million for operating expenses, $29 million for Inspector General operating expenses, $2.498 billion for the Economic Support Fund, $492 million for programs in Central and Eastern Europe and $900 million for programs in the New Independent States. USAID also requests $44.2 million for the fiscal year 1998 mandatory contribution to the Foreign Service Retirement and Disability Fund. In addition, USAID will administer $867 million in P.L. 480 funds.

The total request for fiscal year 1998 USAID-managed programs represents an increase of $476 million over fiscal year 1997. This increase includes:

- An additional $292 million for programs in Central and Eastern Europe and the New Independent States. These transitional programs are designed to aid Central and Eastern European countries and the New Independent States through their difficult passage to democracy and market economies. Helping to secure free societies in this region remains one of America's highest foreign policy and national security priorities. This increased funding demonstrates the administration's commitment to helping these nations move through this turbulent time and reflects a realization that such sweeping change has also been

characterized by uneven political and economic progress. In Central and Eastern Europe support for Bosnian reconstruction and reform and efforts in the Southern Tier countries will be given special emphasis. In the New Independent States, the Partnership for Freedom effort will build on our achievements to date and reorient our assistance program—beginning with Russia and then in the other New Independent States—toward longer-term and more cooperative activities to spur economic growth and develop lasting links between our peoples.

- $135 million more for the Economic Support Fund. Economic Support Funds (ESF) advance key economic and political foreign policy interests of the United States by providing economic assistance to countries in transition to democracy, supporting the Middle East peace process and financing economic stabilization programs. The largest share of ESF will continue to go to supporting the Middle East peace process, including $52.5 million to be transferred to the Middle East Development Bank. The Latin America region will receive ESF funding vital to support the democratic transition in Haiti and the breakthrough peace accords in Guatemala. ESF will also support programs in "fledgling democracies" such as Cambodia and Mongolia. Finally, ESF will he used for assistance in sub-Saharan Africa for elections, political party building and legislative training for countries in transition such as Angola.
- An increase of $65.5 million in Sustainable Development Assistance. These funds will support USAID's development goals by encouraging broad-based economic growth, protecting human health, slowing population growth, encouraging environmental protection and advancing democracy. By fostering free markets and open political systems, USAID's development programs are helping to shape a world that is more stable and open to U.S. trade and leadership. Specifically, the "Promoting Food Security" pilot initiative, aimed at improving food security in Africa, will in its first year target $30 million to five nations: Ethiopia, Uganda, Mali, Malawi and Mozambique. This initiative will support policy reform and a range of agricultural research that will benefit not only Africa, but other developing nations as well. Modernizing agriculture, the cornerstone of the economy in most developing nations, increases incomes of rural people, lowers the cost of food for the urban poor and conserves the environment. By furthering agricultural and, thus, economic growth in these countries, the initiative has the potential to both spark U.S. exports and save this country significant emergency relief food costs.

In sum, these modest increases in spending are all vital to helping secure a more prosperous and stable world during the next century. I would also note that this year's request includes a *decrease* of over $15 million in the Agency's operating expenses. This decrease is due to a reduction in starting levels combined with economies achieved by reengineering and the restructuring of our overseas operations.

Recognizing the importance of our unique mission, we have dramatically improved the management of USAID to make it the most effective foreign assistance Agency in the world. We have overhauled the Agency from top to bottom—its strategic approach, organization and management. We have demanded that our programs produce demonstrable results. Since 1993, we have reduced staff by over 2,700. We have cut senior management by 38 percent. We have reduced project design time by 75 percent. We have reduced our regulations by 55 percent. We have closed 26 overseas missions and will close six more by the end of fiscal year 1998. Further, USAID is one of the pioneering agencies in implementing the Government Performance and Results Act. All of these actions are designed to ensure that every dollar appropriated to the Agency can bring taxpayers the best possible return on their investment.

We know you have questions about our new management systems. Let me try to give you my perspective on what we are doing. You must first understand that our new management systems are not just designed to replace existing financial and procurement systems. We will indeed replace those systems but NMS is much more than computers or software. Our new management systems are a new way of doing business. As you know, we have redesigned our old project design system to make it faster, simpler and more customer-oriented. We have also redesigned our overseas missions to empower employees, to create strategic objective teams and to make our programs more results-driven. The new computer system will facilitate these improvements. It is a management tool created to allow us to manage more effectively the other reforms we have adopted.

As we implement the computer portion of NMS, we are bringing the Agency's technology to the forefront of any used in Government. We are in the process of deploying a management system that fully integrates project planning, budgeting, a

single-entry financial system, a simplified procurement system, and our evaluation system. In the next few years, we will add workforce planning, personnel management and a training module to our current capabilities. All of this will be available to every USAID office worldwide. Deploying such a system in a worldwide operation is not easy, but we have made great progress.

Let me give you a brief status report.

As you know, we activated NMS computer system worldwide on October 1, 1996. Since then we have been using a combination of NMS and the old legacy systems to process transactions. To date we have processed 142 contracts and grants in NMS totaling $252 million and have paid approximately $15 million in invoices plus the $1.2 billion cash transfer to Israel.

Since bringing the system up worldwide, we have been addressing two major challenges. One relates to the need to migrate consistent and accurate data from the old systems into the new. The NMS will not allow us to process any inconsistent or inaccurate data. This forces us to clean up and reconcile data and incorporate it into the new system. We have found this to be a more labor-intensive process than we imagined because the level of inaccuracy in the old systems was even greater than anticipated. Nonetheless, we have made great progress. We have migrated all 8,000 records from the old Financial Accounting Control System (FACS) and the 6,500 records from the Contract Information Management System (CIMS). We still have to reconcile this data and reconcile it with the data from the field Mission Accounting System (MACS), but we expect to finish that process by this summer.

Could we have waited until all this data was reconciled before we activated NMS? Could we have phased in the new system one module at a time? We considered both of these options. We rejected them because the integration process would have taken years, and we would still be using the old legacy systems and accumulating additional data of questionable accuracy that would have to be migrated later in a reconciled form. Activating NMS has forced us to migrate the data more expeditiously and, in the long run, it will save us time and tax dollars.

The second challenge has been the need to create a worldwide, high-speed communications system. We have encountered problems with the two separate telecommunications systems we have been using, but we are making real progress in overcoming these problems. The time needed for transactions has been reduced, and we have several actions we are taking to further reduce this timeframe.

Mr. Chairman, when I came to USAID in 1993, the need for an integrated management system had already been identified. A plan developed in 1992 called for a fully integrated financial management, procurement and budget system but one that did not integrate operations or allow us to integrate field and headquarters capabilities. This much less ambitious system was estimated to cost approximately $100 million. Our judgment was that that plan would not have given the Agency what it needed in a reasonable timeframe and that the cost estimate would most likely have been

What we have created is the full-fledged integrated management system I have described. We have consciously sought to deploy this system using state-of-the-art approaches. Each step of the way we have consulted with systems experts at OMB, GAO and the private sector, and we have been encouraged to move forward. My own Inspector General has offered superb advice on which we have acted to correct problems. He has also pointed out that our systems development approach is an unconventional one. That is his job.

I want you to know that I understand the risks, and I believe that our approach will pay off. It reflects the latest thinking in systems development. I also understand there are risks in adopting conventional approaches as well. As business executive Hank Delevati of Quantum Corporation said recently, "The phased approach is longer—and I contend riskier—because you won't get everyone involved and coordinated." Quantum Corporation was one of many large organizations that has successfully deployed a new integrated management system using the "all at once" approach.

Last week we had our systems coordinators into Washington from around the world. We want them to know we understand the problems they are having and the solutions we are devising. They now have a better appreciation of the effort we are making. They and we are confident that we will accomplish what other Government agencies have not.

Mr. Chairman, we do not seek to mask the difficulties we face in making NMS fully operational, but we are on the right track. This system will not only revolutionize the way we do business at USAID, it will lead the way for the development of similar systems in the U.S. Government. We have been pleased that so many Congressional staff have sat through detailed briefings on NMS. We welcome your vig-

orous oversight. We welcome it because we know that together we can vastly improve our capacity to fulfill our mission.

In short, we are doing everything possible on the management side to make America's international programs cost-effective. We want to achieve results that serve America's interests. Let me describe how we believe we serve those interests in today's world.

America's Stake in the World

The United States has a vital interest in maintaining a leadership role in the international community, and in seeing that the international community cooperates on the basis of shared values. Nowhere is this more true than in promoting development in poor nations and countries emerging from the long shadows of communism and totalitarianism. Why is this important to Americans?

It is important because we live in a world where trends toward globalization and increased interdependence are powerful and accelerating. This means international cooperation is increasingly important—in areas as diverse as promoting trade, protecting the environment, fostering democratic governments, reducing rapid population growth rates, establishing market-based economies, stemming the flow of narcotics, slowing the spread of infectious diseases, coping with migration and protecting human rights. In all of these areas, the benefits of fruitful cooperation are significant and lasting, while the failure to work together will he increasingly costly and immediate.

During the cold war, U.S. leadership was central and unmistakable as the protector of the free world against the threat of communist expansion. U.S. military power and economic dynamism were seen as essential to resisting that threat. But America's leadership then, as now, had a foundation stronger than our Army or our economy. The U.S. projected a compelling, and widely shared, vision of a world order where democracy and open systems were respected. Our vision of political and economic freedom, of social justice and respect for the individual was as powerful as any missile or any defense system. The U.S. offered the world not only security, but a better alternative to the Communist vision.

The cold war is over. We still have the strongest military and the strongest economy in the world. But strength alone is not a substitute for leadership. America's position in the 21st century will depend more and more on the quality of our leadership; on the perception that we understand and appreciate the broad interests of the international community, and that we act with these interests in mind; and on the perception that we still have the best, most compelling vision of a global world order. Equally important, America's domestic interests are now, more than ever before, inexorably linked to events that take place far from our own shores.

Our modest and well-targeted foreign assistance programs directly advance America's interests—your constituents' interests—in three direct ways: By helping to prevent crises; by generating dynamic opportunities for expanded trade; and by providing protection from specific global health and environmental threats.

A Diplomacy of Crisis Prevention

One of the most profound areas of concern for the United States and its allies is the growing phenomena of failed states. One need only open a newspaper on any given day to see the perilous state in which many nations now find themselves. Whether it is rebels fighting in eastern Zaire, hostage-taking in Tajikistan, street protests in Belgrade, Bulgaria and Albania or the constitutional crisis in Ecuador, we are confronted by potentially explosive situations with the potential to trigger conflict or economic collapse.

Since the mid-1980s, the number of man-made emergencies requiring a U.S. Government response has doubled. The staggering human, financial and political cost of these conflicts is reflected in the increasing scope and complexity of peacekeeping operations, the loss of human life and the exploding numbers of refugees around the globe. Since the Gulf War, the United States has mounted 27 military operations as a result of ethnic conflicts and failed states. Up to 1 million people lost their lives through genocide in one year in Rwanda. In the former Yugoslavia, the loss of human life in less than four years was the greatest in Europe's post-World War II history. The number of refugees and displaced persons in the world now numbers close to 50 million.

As a Nation, we know that we ignore the warning signs of crises only at our own peril. When potential crises erupt into genuine emergencies, it is the U.S. military most likely to be put in harm's way, it is U.S. economic interests that suffer and it is this nation that ends up providing the lion's share of humanitarian assistance to the victims of war and social collapse. It is abundantly clear: The United States has a compelling national interest in preventing and averting crises before they

occur. Practicing a diplomacy of crisis prevention is one of our greatest challenges in this new era, and development programs have a lead role to play in these efforts.

As we know from our own daily experience, every country is subject to the internal pressures to some degree of stress from ethnic, religious, economic and other deep-seated conflicts among their own citizens. What distinguishes a country that can endure these internal tensions from one that cannot is the relative strength of its domestic institutions. By institutions, I mean not just government and political organizations, but also tradition, culture, social practices, religion and the depth of human capital. In many cases, conflict is a result of a failure to give people a stake in their own society.

The reality is that most nations in conflict simply lacked the institutional capacity to avoid escalating violence. We see prime examples of this in the former communist world. When communist institutions collapsed, and no strong institutions replaced them, conflict became commonplace. We obviously do not wish to see a return to totalitarian methods, so it is essential that we help these countries put democratic institutions and social conditions in place.

A second category of countries that fall into crisis include nations such as Rwanda, Somalia, Sudan, Zaire, Afghanistan and Liberia. What these countries have in common is that they are among the least developed countries in the world. By "least developed" we mean they have the weakest institutions and least developed human resources.

The findings of a recent administration study of failed states confirm the role of under development in crises. The study attempted to find the indicators most commonly associated with a vulnerability to crisis. The three leading factors shared among nations that have succumbed to crisis were high infant mortality rates, a lack of openness to trade, and weak democratic institutions. Does this mean that if we simply promote trade, strengthen democracy and provide child health programs that crises would disappear? The study doesn't say that. What it does say is that these variables are reasonable proxies for a nation's relative level of overall development, including a country's willingness to invest in its own people, to concern itself with lower consumer prices and to create institutions to enable the people to participate in the development of their own society.

The implications of this analysis for our foreign policy are profound. Development programs are aimed at enriching human resources, strengthening open institutions, and supporting political and economic reform. By fostering stronger institutions, a richer human resource base and economic and social progress, countries are better able to manage conflict and avoid the dangerous descent into war. Development programs give us the tools we need to deal with the uncertain world around us. I am not here today to say that development programs are an ironclad guarantee against crisis and collapse. But it is entirely fair to say that successful development and transitions out of closed systems vastly improve the capabilities of a country to manage division and conflict. This is clearly in the best interests of the United States.

The challenge of crisis prevention is, in many respects, the logical successor to the paradigm of the cold war. Through our democracy and governance programs, USAID seeks to strengthen the political, social and economic institutions on which management of conflict *directly* depends. Our efforts at promoting economic growth also encourage economic freedom. Our efforts at human resource development—in education and health—ensure that an increasing percentage of the population can take advantage of economic opportunity, social progress and political freedom. Our efforts to protect the environment and to give families the capacity to space their children help ensure that development progress is sustainable.

And there is strong evidence that U.S. foreign assistance programs have successfully helped develop functioning stable democracies. Political freedoms have increased significantly in the countries where development activities have been most focused. Between 1982 and 1996, Freedom House data demonstrates that political freedom improved in 48 countries and grew worse in 30. Of the 29 countries showing the most dramatic improvements in political freedoms, most were significant recipients of U.S. aid over the period. U.S. efforts helped nations such as the Philippines, South Africa, Jordan, Haiti, Bangladesh, Guatemala, Mozambique, Nicaragua, Uruguay and Malawi realize the dream of more open societies.

We have also adopted the policy that nations that do not embrace democracy, and that turn their backs on their citizens, will not receive U.S. assistance. We cannot achieve development results if we have poor partners. We will not work with governments that exclude their people from the development process.

International development cooperation works. In developing countries during the past 35 years, infant mortality has fallen from 162 to 69 per thousand; life expectancy has risen from 50 to 65 years; and literacy has climbed from 35 to 67 percent.

We cannot prevent every crisis, but we can avert many. Investing in these efforts is a small price to pay for a foreign policy that advances our interests in a more stable world.

Advancing U.S. Economic Interests

Let me turn now to the role development programs play in directly supporting U.S. economic interests. For both trade and investment, developing countries provide the most dynamic and rapidly expanding markets for U.S. goods and services. U.S. exports to developing countries in the 1990s have expanded at 12 percent annually, more than double the export growth to industrial countries. This is not just a short-term phenomenon, but reflects a trend that began emerging in the mid-l980s.

U.S. exports to countries that receive U.S. assistance have boomed—rising by 76 percent in the last five years alone. Between 1990 and 1995, American exports to transition and developing countries increased by $98.7 billion. This growth supported roughly 1.9 million jobs in the United States. Work in agriculture has a particularly high return. Forty-three of the 50 largest importers of American agricultural goods formerly received food aid from the United States—that's over $40 billion a year of U.S. agricultural exports. A recent study by the International Food Policy Research Institute found that for every dollar invested in agricultural research for developing countries, the export market available for donor countries expands by more than four dollars, of which more than one dollar is for agricultural commodities.

The bottom line is that by the year 2000—three short years from now—four out of five consumers will live in the developing world. USAID's programs are helping these people become America's next generation of customers.

As Latin American economies have prospered, so have U.S. exports and jobs. The region is the fastest-growing market for U.S. exports of goods and services, and also one of the largest. In 1995, the Latin American and Caribbean region accounted for more than 70 percent of all U.S. exports to USAID-assisted countries. Exports of goods to all countries in the region reached $95 billion in 1995, more than three times the level 10 years ago.

Creating the enabling environment for markets is a principal focus of USAID's programs. The connection with development programs, and USAID in particular, is quite significant. U.S. exports are growing much more rapidly to some developing countries than to others. What accounts for these differences? The major portion of the variation is explained by progress in terms of improved policies and institutions—i.e., the enabling environment for markets.

USAID-assisted countries have been among those that have made the greatest progress in policy and institutional reform over the past decade, including Thailand, Jamaica, Bolivia, El Salvador, Guatemala, Peru, Ghana, Costa Rica, the Philippines, Morocco, Sri Lanka, Belize, Panama, Tanzania, Tunisia, Indonesia, Mali, Botswana, and Uganda. Because of our field presence, technical expertise and experience, USAID can have significant influence in encouraging economic policy reform.

The international financial institutions have also played a vital role in supporting economic reform and restructuring weak economies, especially in countries in transition from authoritarian regimes or from conflict. In response to effective U.S. leadership within the donor community, they have increasingly put their weight behind governance reform, investment in social capital, and environmental sustainability—significantly complementing U.S. bilateral efforts. U.S. investments in both bilateral and multilateral assistance programs are fundamental to maintaining U.S. leadership within the donor community and to strengthening this complementarity.

There are some who have argued that private capital flows can simply replace the need for foreign assistance programs. However, it is important to remember that foreign assistance and private investments are complements—not alternatives. By and large, private investment is flowing today into the emerged markets of the developing world, not into countries where there is no rule of law, no financial institutions, no private sector and no predictability. It is only when the enabling environment for markets has been well established—by recipient self-help efforts often supported by foreign aid—that private flows begin to accelerate. Eventually private investment and trade will replace foreign aid, and this is what a development program should strive to achieve. But the issue for most of the developing world countries is not best captured by the phrase "trade, not aid." The phrase "aid, then trade" is closer to their reality.

Our development efforts have contributed to economic freedom worldwide. Of the 27 countries with large improvements in economic freedom between 1975 and 1995 (as measured by an index from the Fraser Institute), 22 have been major recipients of U.S. foreign aid. Continued Clinton administration efforts to promote U.S. job cre-

ation through trade and investment abroad must focus on emerging markets in Asia, Latin America, Eastern Europe, the New Independent States and Africa. Hastening the fuller emergence of these dynamic new markets is an essential element of a long-term U.S. economic and foreign policy strategy for the United States. Private capital will play the largest role in bringing the markets of developing nations into the mainstream of trade and investment, but some of the most promising developing markets are still hampered by trade barriers, other policy distortions and human capacity constraints that discourage trade and private capital flows.

U.S. development assistance is useful in removing these structural and policy barriers. By reducing barriers that keep out foreign trade, by fostering fair and transparent regulatory and legal regimes, and by building capital markets, USAID has been at the cutting-edge of the continued steady growth of America's economy.

Protecting America Against Global Threats

Foreign assistance programs are also vital in protecting the United States against dangers that are global in scope. By treating infectious diseases like AIDS, polio, and emerging viruses like Ebola before they reach our shores, USAID lowers health costs here at home. Our environmental programs help protect the air and water that Americans share with the rest of the world. Our family planning programs help slow rapid population growth and make for healthier and better-cared-for families around the globe, ultimately reducing instability, migration and refugee flows.

Let me give you several specific examples of how all Americans can benefit from our development efforts abroad. USAID has long been the leader in the battle to eradicate polio around the globe. Working with our neighbors, the Pan American Health Organization, American organizations like Rotary International and many others, we successfully wiped out polio in the Americas. But did you know that U.S. taxpayers still spend $230 million a year to immunize our children against the threat of polio reoccurring on this continent?

USAID, working with a rich variety of partners, is helping to lead the effort to eradicate polio globally by the year 2000. This is an ambitious goal, but an achievable one. So, by making modest resources available for foreign assistance, the U.S. stands to save $230 million a year in domestic immunization costs. This is clearly a case where foreign assistance is an investment in our own self-interest.

Or consider that USAID has reached more than 3.2 million people with HIV prevention education and trained more than 58,000 people to serve as counselors and health providers in the developing world. Recent computer modeling shows that USAID helped Kenya avert over 110,000 HIV infections in just three years. Ultimately, our HIV/AIDS programs result in fewer Americans exposed to the virus, and lower health care costs for American families.

By preventing crises, by boosting America's economy, and by protecting the United States from truly global threats, we are working abroad to keep America strong at home and abroad.

Building the Institutions that Serve Us Well

In closing, I would say to this committee that today we have the chance to shape the international institutions and programs that will protect America's prosperity, security and stability for years to come. This includes not only bilateral institutions such as USAID, but equally vital multilateral mechanisms such as the United Nations, the World Bank and other international financial institutions.

It is fitting that this year we will celebrate the 50th anniversary of the commencement of the Marshall Plan. All now agree that the Marshall Plan was a stunning, unprecedented example of enlightened leadership. The United States understood the benefits to the United States of economic recovery in Europe and Japan, and the threats in terms of crisis and instability that would result from economic stagnation in these regions.

During the Marshall Plan, foreign economic aid amounted to more.than 1.5 percent of U.S. gross national product. Now, foreign aid is about 1/10 of 1 percent of our gross national product, and well below 1/2 of 1 percent of federal expenditures. Fortunately, and precisely because the Marshall Plan was such a success, there are many other nations to help us carry the mutual burden of international leadership. But we should still do better if we want to maintain our leadership role and defend our interests.

Development cooperation, including support for countries making the transition from communism, and humanitarian assistance for countries in crisis, remains an essential part of a credible and compelling vision of how the international community should function. A lead role for the United States in development cooperation

is a vital part of American leadership in the post-cold war era, arguably more important now than ever.

I urge your support for the President's budget request, and I look forward to working with you to strengthen our Nation's foreign policy capacity.

Thank you.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

FY 1998 Congressional Presentation

SUMMARY

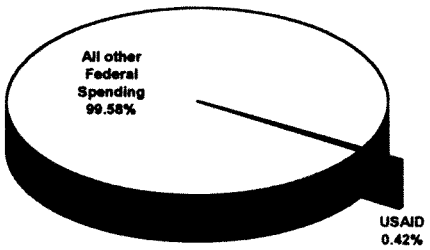
"Every dollar we devote to preventing conflicts, to promoting democracy, to stopping the spread of disease and starvation brings a sure return in security and savings."

President William Jefferson Clinton

State of the Union Address February 4, 1997

The president's Budget Request for FY 1998 includes $19.4 billion for programs in international affairs. The U.S. Agency for International Development will manage $7.2 billion (37.5%) of those funds, which includes both USAID programs and programs administered by USAID in cooperation with other agencies. USAID works with developing nations and countries in transition to support viable democracies and market economies. America's fastest growing export markets are in developing countries -- U.S. exports to countries receiving USAID assistance grew by $98.7 billion from 1990 to 1995, supporting roughly 1.9 million jobs in the U.S. By the year 2000, four out of five consumers in the world will live in developing nations.

Fiscal Year 1998 Budget Request



USAID's programs advance both our foreign policy goals and the well-being of some of the world's neediest people. The FY-1998 funds will:

- Help eradicate polio globally by the year 2000, saving American taxpayers $230 million a year in domestic immunization costs;
- Save more than 3 million lives through immunization programs;
- Help developing nations build their capacity to open their markets and tear down barriers to U.S. trade;
- Extend family planning services to more than 19 million couples around the world who could not otherwise afford them, thus averting thousands of needless deaths of mothers and children;
- Provide assistance to millions of victims of flood, famine, conflict and other crises around the globe.
- Combat worldwide environmental degradation, including global climate change, biodiversity loss and natural resource depletion; and,
- Provide credit to hundreds of thousands women "microentrepreneurs" starting small businesses.

The request for FY 1998 USAID managed programs represents an increase of $476 million over FY 1997 -- including, principally:

- An additional $292 million for programs in Central and Eastern Europe and the NIS;
- $135 million more for the Economic Support Fund; and
- An increase of $65.5 million in USAID's Sustainable Development Assistance.

- The FY 1998 request also includes economic growth activities aimed at improving *food security* in Africa to help feed the hungry and support for agricultural research through the agency's central Global Bureau.

The request also includes a *decrease* of $15.3 million in the agency's operating expenses.

The FY 1998 USAID request reverses the agency's downward budget trend of the last several years, and represents the minimum level necessary to implement a balanced program of sustainable development and humanitarian assistance that will significantly contribute to achieving the administration's foreign policy objectives in the post-Cold War era. USAID is now at a point where after four years of implementing a comprehensive set of management reforms, the Agency's program quality has greatly improved; is increasingly concentrated on results, improved efficiencies and more effective programming; and is more focused in defining its goals and objectives.

USAID BUDGET FY 1996 -- FY 1998
(Discretionary Budget Authority -- $ Millions)

	FY 1996 Appropriated	FY 1997 Appropriated	FY 1998 Request
Development Assistance (DA)	1,619	1,132	998
Child Survival and Disease Program[1]	0	500	0
Development Fund for Africa (DFA)	[2]	[2]	700
International Disaster Assistance	181	190	190
Credit Programs:			
Micro and Small Enterprise Development	2	2	2
Urban and Environmental Credit	11	10	9
Operating Expenses -- USAID[3]	494	489	473
Operating Expenses -- USAID IG	30	30	30
Subtotal -- Development Assistance	**2,337**	**2,352**	**2,401**
Economic Support Fund	2,360	2,363[4]	2,498
Eastern Europe	522	475	492
New Independent States	641	625	900
Subtotal -- USAID Appropriated	**5,854**	**5,815**	**6,291**
PL 480 through USDA			
Title II	821	837	837

[1]These Programs are funded under DA in FY 1996 and DA/DFA in FY 1998

[2]Africa program funding included in DA in 1996 and 1997

[3]Operating Expenses includes use of DA funds in 1996 and 1997

[4]ESF includes $52.5 million requested for the Middle East Development Bank in FY 1998

Title III	50	30	30
TOTAL USAID-Administered	**6,725**	**6,682**	**7,158**

USAID Development and Humanitarian Programs ($2.445B)

This request includes funding for bilateral Sustainable Development which is funded out of the Agency's Development Assistance (DA) and the Development Fund for Africa (DFA). In addition, USAID requests funding for the International Disaster Assistance account; USAID's credit, guaranty subsidy and administration programs; food assistance under Titles II and III of Public Law 480; USAID's and the Inspector General's Operating Expenses; and a mandatory payment to the Foreign Service Retirement and Disability Fund.

Sustainable Development ($1.698B):

This request, which compares to an FY 1997 level of $1,632B (after transfers to UNICEF, the IAF, ADF and USAID's OE account), is the core of USAID's program. It is funded from the DA ($998M) and DFA ($700M) accounts.

Sustainable Development is based on four integrated, interrelated and mutually reinforcing goals that are aimed at addressing the long-term economic interests of the United States. (The fifth goal, Humanitarian Assistance, is part of the programs described under USAID's request for the International Disaster Assistance and Food for Peace accounts.)

- Encouraging Broad Based Economic Growth ($507.5M): This goal is centered around improving market efficiency and performance, expanding access and opportunity for the poor including food security, and ensuring that young women and men enter adulthood with basic education skills. Within the overall allocation for this goal $90.7M will support basic education for children. (FY 1997 funding is $517.7M for this goal).

- Stabilizing world population and protecting human health ($765M): This goal is centered around four objectives: reducing unintended pregnancies through increased use of family planning ($400M), reducing child mortality (220.5M), reducing the spread of HIV/AIDS ($117.5M) and for a variety of other activities to help reduce maternal mortality and the effects of other infectious diseases ($27M.) (FY 1997 funding is $764.6M for this goal)

- Protection of the environment ($290M): This goal centers on reducing threats to the global environment, particularly conservation of biodiversity, reduction of threats to global climate change, reduction of pollution and promotion of sustainable urbanization, provision of environmentally sound energy activities and sustainable natural resource management. (FY 1997 funding is $227.6M for this goal).

  - The increase in environment funding in FY 1998 reflects support of important activities in Africa, Latin America and the Asia and Near East (ANE) Bureaus.
    -- Funds will be provided to Guinea's Fouta Djallon Highlands program to support environmental aspects of the Greater Horn of Africa work on related food security issues; assist community-based wildlife management initiatives in Southern Africa; biodiversity conservation in Madagascar, and provide additional funds to better service existing activities in countries serviced by REDSO/WCA.
    -- In Latin America additional monies will be used to make up for deferred environmental funding in El Salvador, Jamaica and Peru as well as for a program expansion in Guatemala into the Maya forest areas; the result of the peace accords.
    -- In ANE the increase in environmental funding will be used to make up for deferred funding in FY 1997.

- Supporting democratic participation ($135.5M): This goal is achieved through strengthening rule of law and respect for human rights, fostering more genuine and competitive political processes, increasing the development of politically active civil society, and supporting the establishment of more transparent and accountable government institutions. (FY 1997 funding is $122.5M for this goal)

Other Development Assistance Programs

Credit programs:

-- USAID believes that there are significant instances in which U.S. development priorities can be best funded through credit, especially in emerging market countries and in countries moving toward graduation status.
-- Credit resources permit the leveraging of important amounts of private sector resources to support sustainable development. Credit programs also enable USAID to reach large populations that it would not otherwise be able to reach.
-- Important beneficiaries of credit programs are the "poorest of the poor" in both urban and rural areas.

- Urban and Environment program: USAID requests a total of $9M for this program. This includes $3M for subsidies and $6M for program administration. (This compares to the FY 1997 appropriated level of $9.5M.)
  -- The subsidies will leverage approximately $45M in loan guaranties to help credit worthy borrowers to address pressing urban and environmental problems.
  -- Emphasis is placed on addressing urban and environmental problems that impair human health, decrease child survival rates and prevent economic progress.

- Micro and Small Enterprise Credit program: USAID requests a total of $2M for this program including $1.5M for credit subsidies and $500,000 for program administration. (The same amount was appropriated in FY 1997.)
  -- The program uses loans and guarantees to encourage financial institutions to extend and expand credit to microentrepreneurs and small businesses.
  -- The primary financial instrument is the Micro and Small Business Loan Portfolio Guarantee (LPG).

- Enhanced Credit Authority: As part of USAID's FY 1998 request, the Agency seeks the use of up-to $10M in Sustainable Development funds (including up to $1.5M for administrative expenses).
  -- The ECA will provide USAID with an important tool to leverage its limited resources more effectively to pursue its global development priorities.

International Disaster Assistance (IDA):

- USAID requests $190M for this program including $165M for disaster relief managed by the U.S. Office of Foreign Disaster Assistance and $25M for programs managed by the Agency's Office of Transition Initiatives. (The IDA request is the same as the FY 1997 level.)
  -- OFDA funds support emergency relief for natural and man-made disasters, and disaster preparedness, mitigation and prevention.
  -- OTI activities address the head-line grabbing crises of failed states as they attempt to reconstitute social and political structures.

USAID Operating Expenses (OE):

USAID requests $473M to cover the salaries and other support costs of USAID operations in Washington and at overseas locations. This compares to an FY 1997 level of $488.5M (including $17.5M transferred from the DA account), or a reduction of $15.5M.
-- This decrease is due to a reduction in overall OE funded staffing levels combined with the completion of the move of the Agency headquarters, with associated one-time cost savings.
-- The savings are offset, in part, by increases associated with worldwide inflation and the impact of pay raises for both U.S. and foreign national staff.

Inspector General (IG) Operating Expenses:

USAID requests $29.047M for the IG operating expenses to cover the costs of domestic and overseas operations of the Agency's Inspector General. This compares to an FY 1997 level of $30M.

Foreign Service Retirement and Disability Fund (FSRDF):

These funds are not included in USAID's tables on discretionary funding because it is a mandatory appropriation (required as a result of the inclusion in FY 1974 of USAID career foreign service employees in this fund), and it is set at $44.208M for FY 1998 to cover associated costs of that fund. This compares to the FY 1997 level of $43.826M.

Other USAID-Managed Programs ($4,756.5B)

Economic Support Fund (ESF) ($2,497.6B):

The ESF account addresses economic and political foreign policy interests of the United States by providing economic assistance to allies and countries in transition to democracy, supporting the Middle East peace process and financing economic stabilization programs, frequently in a multi-donor context.

The largest share of these funds will go to supporting the Middle East Peace Process ($1.2B for Israel, $815M for Egypt, $75M for the West Bank Gaza, $25M for Jordan, $12M for Lebanon and $52M for transfer to the Middle East Development Bank) and $17M to assist other non-peace process countries and programs in that region.

The Latin America region will receive $116M, with the largest share of those funds going to Haiti ($70M), Guatemala ($20M), and $10M for the ICITAP program that funds administration of Justice and police training programs in that region.

ESF will be used to fund continued support of programs for "fledgling democracies" in Cambodia ($37M) and Mongolia ($7M) as well as provide on-going assistance to the International Fund for Ireland (19.6M).

$25M of ESF will be used for assistance in Sub-Saharan Africa for elections, political party building and legislative training for countries in transition such as Angola, the Congo and Sierra Leone, as well as support for U.S. NGOs to provide assistance in training local human rights and civil society networks in Cameroon, Rwanda and the Seychelles.

(The ESF request compares an FY 1997 level of $2.363B.)

Assistance for East Europe (SEED): ($492M):

This is a transitional program designed to aid Central and Eastern European countries through their difficult passage to democracy and market economies. As countries consolidate their political and economic transitions they will be graduated from the assistance category and funding for bilateral SEED programs will be phased out. However, the program will remain flexible to accommodate uneven political and economic progress.

The broad objectives of this program are to build market economies and strong private sectors, consolidate democracy, and improve the basic quality of life throughout the region.

- Of the amount requested, $225M will be allocated for Bosnia reconstruction and reform programs including activities associated with the Dayton Peace Accords.

-- Of the non-Bosnian resources, 45% will go to Southern Tier countries, which have gotten off to a slower start then countries in the Northern Tier, and which up to now received a much smaller share of resources.

(This request compares to an FY 1997 level of $475M).

Assistance for the New Independent States of the Former Soviet Union ($900M):

-- Funds under this request will be used to support these countries as they make the transition to market economies and democracies as responsible members of the international community.

-- In FY 1998 a new initiative will be undertaken, Partnership for Freedom, that will build on achievements to date, reorient our assistance program, first to Russia and then for the other NIS countries, towards longer-term and more cooperative activities to spur economic growth and develop lasting links between our peoples.

(This compares to an FY 1997 level of $625M.)

P.L. 480 Food for Peace Titles II and III ($867M):

-- Title II: USAID requests $837M (the same as the FY 1997 level) to address food insecurity through emergency response, increased agricultural productivity and increased household nutrition activities.

-- Title III: USAID requests $30M (compared to $29.5M in FY 1997) to fund food aid to low-income, food-deficit counties to encourage policy reforms aimed at achieving long-term food security.

# # #

Country level detail for all USAID administered programs will be presented in USAID's FY 1998 Congressional Presentation to be submitted to the Congress in late February/early March.

[See Appendix for "Summary Tables, Fiscal Year 1998," submitted by Mr. Atwood.]

Senator HAGEL. Thank you, Mr. Atwood. I am grateful and, again, I apologize for the disruption. But I do not sense it has detracted from your articulate presentation and what we have to do today.

You know the drill here. The drill is to get you on the record on a number of questions. I have a number of questions, as do my colleagues. But let me just generally respond to a couple of things that you said as well as Senator Sarbanes.

I agree very much with Senator Sarbanes' point about foreign aid being an investment. It is an investment. It is an investment in stability. America and our people are far better off, as we all understand, with a stable world. This means stable economics. This means more markets, more trade. In some of the conversations I have had with Secretary Albright we covered that ground.

I think the crafting of a new foreign policy for this country is going to have to include very much what you do and what your organization is about because that foreign policy, at least in my opinion, should include trade and commerce and breaking down barriers through much of what you do.

So, I have always believed that American foreign aid is truly, used wisely, an investment in our future, an investment for a more stable and better world. So, I want you to know that that is how I come at this and agree with the general sense of what you have devoted some of your life to and what my colleagues here have said today.

Let me ask a couple of questions as I am waiting for my colleagues to return. Then we will allow them some time with you as well, Mr. Administrator.

This year, AID plans to complete its move into its new building that is going up in the Federal Triangle area of Washington, DC, which will be, I understand, the most expensive Federal building in the Nation's Capital. Your own comptroller, it is my understanding, has estimated that, in addition to the over $40 million cost of the move, it will increase your Agency's annual operating expenses at a minimum of $4.5 million a year. At a time when AID has undergone down sizing, can you tell me, first of all, if those numbers are accurate? Then maybe give this committee some assessment as to why it was important for you to move into that building.

Mr. ATWOOD. Yes, sir, Mr. Chairman. I would be happy to.

Let me just say that I believe that this building, which I am pleased to say to you, as a Republican, is called the Ronald Reagan Building——

Senator HAGEL. That bothers some people, I know, on my side. But go ahead.

Mr. ATWOOD. It was built with an appropriation given by the Congress and obviously approved of by the executive branch. It is a Government building, and this is significant because Government Agencies have to go into that building. We happened to have the luck of the draw because there has been a long-standing effort on the part of both the State Department and USAID to consolidate operations which each of us has scattered throughout several buildings in the metro area.

This is not only going to save USAID money. It is going to save the State Department money, and it is important, it seems to me, to be seen in that light.

This is something, this consolidation effort, that started many years ago. It started in the Bush administration for that matter.

We have 11 different buildings. The State Department has something like 16 or 17 different buildings that we operate out of. We are going to be able to put all of our people in the same space, and I think there are tremendous efficiencies that we will realize in not having people have to go back and forth by bus across the river to Rosslyn and whatever.

We will be giving our people a lot less space than they have now, actually, Mr. Chairman. A lot of our people are in commercial office space and this is the most significant point. We are going to be assuring that over time, since this is Government space, that we are not going to be left to the fortunes of the commercial market here and to inflation. We are going to be able to protect ourselves in the long-term against those kinds of increases in our rental costs.

So, I believe that this is to the advantage of the U.S. Government, to the advantage of my Agency. We will be saving, we estimate on average, between $1 million and $3 million a year as a result of this, and this does not count the efficiencies that would flow from being all together in one place.

The cost of the move is actually $43.6 million. It includes the need to purchase some modular partitions and furniture because of the way we are going to occupy this space, using some of the more modern equipment that is used for this type of office space. We have had questions of concern about security and the like. We are examining those questions now.

I can tell you, however, that the security that will be provided to us in this office space will be greater than in the 11 buildings that we now occupy because I think 10 out of those 11 buildings are in commercial office space where there is no protection for our people.

Senator HAGEL. Following on to that, I have heard a little bit about the infamous new computer system. You might want to address that. I know that is not a question that you did not anticipate.

Mr. ATWOOD. Yes, that's right. I would like to address it.

There has been an awful lot of information that has not been accurate that has come up here to the Hill and elsewhere.

I would simply point out in starting to discuss this that, as you know, new computer systems are being built, integrated management systems, by the private sector and by other Government agencies. You don't hear any complaints about these computer systems until you actually begin to activate them and deploy them. That is when employees who are used to the old systems and are befuddled by the new systems begin to complain that this is not working properly, and you hear a lot of flack about it.

I think we have to stick with this. We are adopting, in deploying this system, state-of-the-art techniques in system development that have been used, tried and true, by the private sector. We are doing this all at once. We are doing it to try to clean up a situation that has existed at the Agency for International Development for a long

time. We have 11 different accounting systems and a worldwide operation.

As we have put our new system in place—which is a single entry financial system attached to a procurement system, and attached to a budget system, and eventually to a personnel and training module, and an evaluation module—what we are finding is that our system, which is a single entry system, does not accept bad data.

One of the reasons that we have been slow in getting this going is because we have had to clean up all the data that we've put into the new system.

We have data in our contracting office, data in our missions overseas, and data in our regional bureaus that is not consistent. That is what we have been criticized for for years.

Now, finally, we are getting it all together, and we have migrated thousands of records into the new system. The new system is operating. It is actually fulfilling transactions. Millions of dollars have gone through the new system.

We have that problem, the data migration problem, which we are working on and expect to have completed by the summer, and we have a communications problem because we are a worldwide operation. We use two different communications systems. We have had some problems with the bandwidth of our communications capacity and we have been discussing this with the State Department. We use one system from State and one from the Navy. We have reduced the time of communication considerably since we have been working on the problem.

I think we have to stick with it. The Bush administration made an estimate of what it would cost to do a system like this. We had their plans. We decided that we needed to take a different approach. But their costs were estimated to be $100 million.

Our estimate is that we can complete the system for about $72 million if you leave out some of the other ancillary costs that we would have had to undergo anyway.

There are all sorts of ways to look at cost. But I can tell you what someone told me once, that if you make the system work and it is a success, no one is going to be asking you questions about the cost. But we are not throwing money at this problem. We have a very exciting opportunity to change the way we do business at USAID to give us the capacity to do what people can do in the private sector. It is going to make us more efficient. It is going to save us money in the long run, and I am very pleased by where we stand at this juncture.

Senator HAGEL. Let me ask a follow up question. Then I would ask Senator Biden if he would like to join in this dialog because it is something that Senator Biden talked about in his opening statement. It is something that I am interested in as is Chairman Helms, and it kind of starts to tie together with this new computer system.

If we are to move forward with some reorganization, what kind of plans are you building into this system, into your network, in allowing for that to happen if that should happen? What other Departments, State Department agencies, are built into this system?

Mr. ATWOOD. USIA has been asked by the OMB to look at our system and to adapt it for their use. That study is going on right now.

It is clearly a system that has been built for us. We did business area analyses using our people and our programs so that we could develop the kind of system that would be responsive to their needs—procurement needs and their ability to design projects, their need to measure results, for example, in our programs and to use the system to report those results. But it can be adapted.

I think the approach we have taken can be used. The State Department has been working on its own system for a good time now. We have been sharing information with them. I think that we can work together with State and the other foreign affairs agencies to use a good part of this, although most of the detailed software has been prepared to do a development mission.

Senator HAGEL. Thank you.

Senator Biden, did you vote right?

Senator BIDEN. I did. I voted for the Torricelli amendment, which I predict to you, if we are going to end up with a Constitutional amendment to balance the budget, will be the only one we will get if we don't get this one.

At any rate, let me ask you this, Mr. Atwood. One of the things that you mentioned in your opening statement as an example of the increased importance of your Agency is this. With the collapse of the Soviet Union and the super power conflict and all of these emerging conflicts, we are looked to to play an increasing role. You made the larger point that, whether or not there is control of what amounts to a pest in a lake may have as much impact on whether American forces get sent off somewhere as what somebody did in 1962 relative to a communist coup. I think you are right about that.

Then you gave us an example that our commanding general in Bosnia, in speaking to Republican freshmen—or House freshmen, I forget which it was——

Mr. ATWOOD. House freshmen.

Senator BIDEN. [continuing]. in speaking to House freshmen indicated a thank you for the assistance you provided as a consequence of your Agency's activities which enhanced the capability of the American military to perform their function.

Let me ask you this question. As you look down the road, how much of what you decide to do is predicated on those kind of judgments and do you have the Defense Department, for example, in this case making input? Do any of your staff behind you sit down with the Joint Chiefs or their counterparts there and say OK, this is an extension of our responsibility, where should we be looking?

My impression to date—and "to date" means the last 24 years—is this. Actually, I have two impressions. One is that no one has handled it better than you have, and I am not being solicitous when I say that. No one has administered it as well as you have. Second, that kind of thing is never done.

So, I know you are citing it as an illustration of the importance of aid. But I would like you to tell me in realistic, every day terms, how much actual coordination there is along those lines.

Mr. ATWOOD. Well, there is a great amount of coordination, really. I will give you a couple of examples.

Obviously, I attend all of the meetings of the National Security Council and discuss these kinds of issues. We clearly cannot, for example, close down a USAID mission in a country without the concurrence of the Secretary of State. We clearly do not open new missions in countries without the concurrence of the Secretary of State. So, there is a lot of discussion about those kinds of issues.

For example, while we are closing a lot of missions, we are going to put a USAID representative in and increase our program in Lebanon. A lot of that resulted from our Secretary of State's negotiations over the southern Lebanon problem.

We have had a lot of discussion about what causes states to fail. The CIA actually did a study using a lot of academics on the outside. But to talk about the vulnerabilities of nation-states and what causes them to fail, they looked at a whole series of factors. They found three factors that really were better correlations to state failures than anything else.

One was the infant mortality rate. Now why? Why is that important? It is an indication of a Government's attitude toward its own people. Do they care enough to provide health care? Do they care enough to provide enough food? So infant mortality was one factor.

The extent of trade liberalization was another. Many of these countries have highly protected economies and do not encourage in any way exports. Certainly their imports are at high prices. So, they are serving the needs of their elites in these countries. In many of these countries 10 percent of the people have 90 percent of the resources. So, the elites can afford to buy the imports but the poor people cannot. So, the attitude toward their consumers was important.

The third factor was new democracies that are in very poor countries. They are considered to be very fragile. Do we move in and help them or do we not?

We certainly encourage democracy. We promote democracy. But the point this study was making is that these countries are highly vulnerable and if you do not help them, they are going to fail. There is a great deal higher risk of failure in those kinds of situations than in other places.

So, I think we understand these kinds of issues. We certainly are trying to help support foreign policy goals of bringing a resolution to crises such as in Zaire and the like. We are putting money into the election process, if a decision is made that this is the way to resolve that crisis.

We have undertaken under the Greater Horn Initiative in East Africa a need to look at all phases of the continuum, the relief phase, where they are using a lot of emergency food and how does that impact on the recovery phase. How can we help soldiers demobilize from war-torn situations, for example.

Senator BIDEN. When you were working up here, Brian, it was an article of faith that the Foreign Assistance Act and, by extension, AID, was laden with too many objectives and missions. Under this administration and your leadership, there has been an attempt to channel your efforts in four major areas. You have referenced

several—democracy, the environment, population health, and economic growth.

Now in a preface, Mr. Chairman, to this question AID has had its detractors. They come from, in my time here, sort of three areas. One is those who just think we should not be spending money abroad, charity begins at home, what are we doing with this "foreign aid," and, why are we doing this. There is that general proposition.

The second quarter where criticism has come when it has come is that it is wasteful, disorganized, lacking specific objectives, redundant, and so on.

The third criticism in a generic sense has been that it is off on its own, and implied by the comments of the Senator from Wyoming was that I hope you do our foreign policy as well, or something—and I am paraphrasing. It's that it is off there on its own and there is no coordination with other elements of our foreign policy establishment.

The reason I ask these questions—and, Mr. Chairman, you tell me when to stop; you jump in; obviously you are running the show and I do not mean to monopolize this—to follow this down to what I think you are going to have to answer in order for us to get an authorization bill is this. By the way, I support your submission. I think it is pretty lean. I think you have done it well.

I think you need to answer each of those criticisms. The second you have answered pretty well, in my view, over the last 4 years by the way you have streamlined the Agency, by the way you have cut staff, by the way you have made savings, by the way you have increased its efficiency, and so on.

The one you are never going to be able to answer, I don't think, you alone, is why not Wilmington, Delaware instead of Zaire, or wherever.

The third one is what I want to focus on with you a little bit now, and that is not just rhetorically but practically how does this coordination occur? You obviously have these four broad objectives—democracy, environment, population and health, and economic growth. But one of the compelling arguments I think at least intellectually, I believe, is that as our military presence in the world and as our need for massive military establishments are growing and continue to grow as they did during the decades of the 1970's and 1980's, as they taper off and diminish some, it seems to me that the other element of our projecting our strength, which is our foreign policy—and this is an essential element of our foreign policy—becomes more important. But how do you deal with the judgments you make?

It's like when I am at home. I get questions like you remember. You used to have to answer a lot of these questions. You still do, I guess. I mean questions such as how did you pick that country, why that place, why that amount. Is it a totally internal judgment you make or run by OMB? I think I know the answer but I think it is important that the answer be on the record. Or, is it something that you actually sit down and say look, we have been talking to the folks at State in the Politico-Military Bureau over there, and we talked to them over at Defense, and they are telling us that the situation is so unstable in—and I won't pick a country because

it will make news just picking a country; someone will think I mean it—in the country of Xandu, if we do not get in there and help them stabilize their grain crop, and if we don't get in there and give them some additional assistance, then it is going to deteriorate pretty quickly.

We cannot determine the outcome but we can tip the balance.

I will end by saying that you say you should propose and we should dispose. I do not disagree with that theoretically. But you may recall that John Ritch and I started the SEED Act. Remember that old deal? We talked about it. That was a proposal that was ultimately picked up by President Bush and the Freedom Support Act. But the purpose was unabashed.

We sat there and said: Hey, look, we don't want our kids reading about another Weimar Republic. As all these nations become independent nations, we do not want to read about people carrying the equivalent of wheelbarrows of deutschemarks to the bakery to get a half loaf of bread. Democracies do not flourish where economies do not grow.

So, this was supposed to be a little bit of impact. It was not going to determine the outcome but would have a little bit of impact.

That is a long, long preface to the question that sits in the middle there. How do you make those judgments? How do you coordinate? Make the case. Convince us that you actually do something other than sitting down with your competent staff behind us and say I have an idea today, so let's go to Zaire.

Mr. ATWOOD. Senator, I would be the last person to suggest that Congress does not often inspire the executive branch to do what is right. I must say that I am not disputing the fact that Congress on the reorganization question has inspired the executive branch to look at this issue, if you will, to keep an open mind but to do something about it as well. Certainly in the case you talked about, the SEED Act legislation, that has been the case. I think it was a good cooperative relationship that finally worked.

We have to make it work and I think that is a good example of it. But how do we make these judgments?

There are two ways to think about the resources that are available for foreign affairs. Every one of us, no matter what we believe about the President's request, thinks that there are too few resources. But we are going to look at it very closely.

You could take those resources and spread them everywhere so that every U.S. Ambassador, for example, has a little bit of resources to try to fulfill American objectives in that particular country. You are not going to accomplish a lot. You are going to make a lot of people feel good, particularly, I suppose, our Ambassadors. But the question is how do you concentrate those resources so they really do produce results.

Senator BIDEN. With all due respect, that is not the question I am asking. I am asking how you decide where to concentrate, not whether. Who makes that decision? How do you arrive at that decision?

Mr. ATWOOD. What I am saying is that that second approach is the approach we do take, which means there is a premium on deciding where.

The perspectives that are brought to bear on it are the security perspective, the diplomatic perspective and the development perspective with respect to our resources. We ask if this is where we have a quality of partnership that will enable us to achieve results. We ask if there is a need in the country. We ask if our programs are performing in the country, and the State Department weighs in and says we have a foreign policy interest in this country or we do not.

In terms of putting the actual program together, it comes from the U.S. country itself, from the country team. The Ambassador signs off on every strategy that is sent to Washington to implement our development program in that country. It then goes to a regional bureau at State and USAID and they work together, then upwards all the way to the Secretary, with whom I work very closely.

I attend morning staff meetings with the Secretary of State. There is a lot of coordination. Meetings occur at the USC, when things get to be really hot, when we have to decide whether or not to cut off a country, occur. We operate under law, so there are such countries.

I was just having a meeting in my office on the country of Niger, which has basically fallen on the wrong side of our law with respect to democracy since the recent election, which we did not consider free and fair. What can we do there? Do we have to leave entirely or what does the law allow us to do? That is another consideration that is brought into play.

But there is a lot of coordination. Do we have arguments? Yes. Is it important to have these three perspectives and maybe more—the security perspective, the diplomacy perspective, and the development perspective? I think it is extremely important before decisions are finally made by the Secretary of State and/or the President.

Senator BIDEN. Thank you, Mr. Chairman.

Senator HAGEL. Senator Biden, thank you.

Now the other distinguished Senator from the State of Minnesota, Senator Grams.

Senator GRAMS. Thank you very much, Mr. Chairman.

Mt. Atwood, welcome.

Mr. ATWOOD. Thank you.

Senator GRAMS. I had a couple of questions I wanted to talk about regarding AID and what is called economic growth and the investment in that in other countries.

For Fiscal Year 1998, the budget for AID for Development Assistance, and that is funding for what AID defines as economic growth activities, totals about $508 million. But it represents about a 5 percent cut in real terms and continues a recent decline in funding for these types of programs.

My question would be could you detail for me what economic growth programs are being cut in this budget and how much funding will be available specifically for activities that directly promote a strong private sector in these developing countries.

Mr. ATWOOD. Yes, Senator. I am happy you asked because, very frankly, over the last several years it is our economic growth budget that seems to elicit too little interest up here or in the executive

branch and it gets squeezed. It gets squeezed by other priorities. It has been squeezed by the commitment of this administration to increase the population budget and the environment budget, and I would certainly defend those kinds of judgments. But it gets squeezed by Congress when they put in a large earmark for child survival programs and the like.

I think economic growth is an extremely important part of our program.

I had a meeting with well known Harvard economist Jeff Sachs, who says his view is that economic growth is the whole ball game, that if you can get countries to straighten out their economic systems, convince them to adopt market techniques and privatize their country, you are going to see very strong economic growth. We have seen that in a number of countries as a result of the work we have done along with the World Bank and other development agencies as well.

We have seen the economic growth budget squeezed to the detriment of our agriculture sector, as I said earlier, and certainly the State of Minnesota is concerned about that, too. I attended a meeting yesterday with many agribusinesses present, including Cargill. They are asking for a $2 billion increase in our foreign aid budget to do this kind of work.

The problem is that we are all trying to operate, both the executive branch and the Congress, Democrats and Republicans, under a new regime that is called balancing the budget by the year 2002. Something has to go. Something gets squeezed.

I am making a special appeal this year that we be given what we have been asking for for economic growth so that you do not once again see us canceling out a part of our budget that really has a major impact on our ability as Americans to export. We have seen an increase in the last 5 years of close to $100 billion of exports to the developing world. That is the result of previous investments that have begun to pay off.

I think we have to continue to make those investments.

I believe very strongly, as do many conservatives up here, in economic freedom. I believe that we should be helping these countries. However, that does not mean just hearing their declaration that they believe in the teachings of Adam Smith, but it is trying to help them put in place a system that works. It is trying to put in place a rule of law and a society that sustains economic growth, helping them to privatize, helping their privatized companies to learn what it is like to be an entrepreneur, and creating all of that environment that will eventually have us getting out of the country and trade and investment taking over.

Senator GRAMS. I know I might be putting you on the spot when I asked you for the details of what programs were actually being cut and you might not have them at your fingertips.

Mr. ATWOOD. Actually, we have asked for an increase in economic growth this year.

Senator GRAMS. But I was wondering if you can give me kind of a budget or a line item on the programs and where the cuts are being made. Maybe you could submit those to us in writing.

Mr. ATWOOD. I will be happy to, Senator. Yes.

[The following material was subsequently supplied for the hearing record by Mr. Atwood.]

ECONOMIC GROWTH

The proposed reduction, albeit a marginal one, in funding for economic growth programs is the result of a difficult choice about the best way to restore needed balance in USAID's overall sustainable development program.

The combination of cuts, directives and earmarks in the FY 1997 Development Assistance appropriation caused a significant reduction in funds available for other sustainable development programs, especially those which support environmental efforts, support for democracy, and expanded family planning. As a result, the Administration made a judgment that despite only a modest proposed increase in DA, funding for key programs cut in FY 1997 should be restored in FY 1998, while at the same time maintaining adequate support for priority social programs such as child survival and health. The result was a small reduction in funding for economic growth.

Compared to the request of $508 million for economic growth in FY 1998, a level of $520 million is budgeted in FY 1997. Thus, the FY 1998 request for economic growth represents less than a 3 percent cut from the current level. The small reduction affects primarily funds available for strengthening of markets in developing countries and a slightly lower level of support for children's basic education. However, we have not reduced support for microenterprise programs, aimed at expanding economic access and opportunity for the poor, and we have significantly expanded economic growth-oriented assistance to Africa (up 13 percent from FY 1997), in part to help enhance food security and reduce the threat of famine in that region. Moreover, we believe that achieving equitable and sustainable economic growth also requires maintaining adequate levels of support for environmentally sustainable use of resources, helping countries gain better control of population growth and assisting with the creation of participatory civil societies. We are convinced that the request we have presented strikes the best balance among these various means of achieving economic growth.

Senator GRAMS. Also, last September I did hold a hearing on exactly what you were talking about with your economist from Harvard. I believe you mentioned how he said we could make more of these investments in certain areas of privatization.

We had a panel of experts also from across the political spectrum of whom we asked the questions and all agreed basically with what you have stated here, that the deciding factor in propelling these developing countries toward long-term, sustainable growth is economic growth activities.

Why, then, do we see a continuing decline, going back to what you said, in funding for economic growth activities in this latest budget but an increase in other areas of Development Assistance which has not been proven, I would say, to lead directly to increased prosperity? So, in other words, we are cutting off the very stem that is going to provide long-term growth and economic activity for the countries in relationship to short-term needs.

Mr. ATWOOD. The other parts of our budget are also important, I think.

Senator GRAMS. You mentioned environmental issues and child care, and those are all important. But they really take away from the ability for long-term.

Mr. ATWOOD. But if you look at economics as a human system rather than just as sort of the institutional structures necessary to achieve economic growth, if you have a society that does not have a productive work force because it has serious health problems or education problems, then you have a society that cannot sustain economic growth.

If you have a natural resource base that is being ruined by environmental decay, slash and burn techniques for agriculture and the like, people being forced into cities where infrastructure problems abound, and if you have a society that cannot sustain the population growth, you can achieve a 4 percent economic growth in a country and see 3 percent population growth, and all of that money is going into social sector spending to try to take care of the new people who are coming along. So, it all does relate. It is all interconnected.

The point that I think I would make to you, Senator, and I am delighted you have raised this, is that we need balance if we are going to approach this. This is not simply because we do it all but because where we work, other countries follow. It is when the United States does development work, other countries look at the way we do it. If we deemphasize economic growth activities, we are going to find that we will have the kind of negative impact on what other people do that we do not want.

Senator GRAMS. Just finally, I have one more question, Mr. Chairman.

When we talk about economic growth, I think there is a broad definition, probably, of what economic growth is and what programs would be helpful.

Using stricter criteria, the Congressional Research Service reported last year—and this is in their report—they said only 13 percent of AID's Development Assistance funding was going directly to promote economic growth.

I also was working last year with Senator Connie Mack to include a provision in the Fiscal Year 1996 Foreign Operations Appropriations bill that required AID to issue at that time, or to issue an annual report on the prospects for economic growth in countries that are receiving development aid. But the report that has been released by AID was disappointing because it simply was a compilation of statistics rather than what we would consider an analysis of supporting your decisions or AID's decisions to continue investing foreign aid in the developing country.

So, the question, again, is if AID is truly committed to the promotion of economic freedom, why is that not reflected in its budget priorities and how could you assure Congress and the American taxpayers that the foreign aid is going to countries with real potential for economic growth? I mean, there is a need out there that we cannot match—but the investments that we do make that have the real potential for economic growth, rather than ones whose governments insist on staying mired in socialist economies and refuse to undertake the tough reforms necessary to reach self-sufficiency.

When I go back home, one question people always ask is if you would only cut foreign aid, we could balance the budget. They know there is a lot of good foreign aid, but really they want us to target that and make those dollars count.

Mr. ATWOOD. I believe that a very strong case could be made that the increase in our export sector has really saved our economy as compared to other economies. So, I could not agree with you more.

The 13 percent figure that you cite for our Development Assistance programs does not reflect the 32 percent of development as-

sistance we record as economic growth. For FY 1997, this is $520 million of a DA total of $1.63 billion and covers such activities as basic and vocational education, agriculture and private sector development in trade and investment, policy reform, construction, transportation and energy, and power development. Most of the money that we are spending in Eastern Europe and the former Soviet Union is going for economic growth activities—privatization and related kinds of activities.

I am not disagreeing with you. I think we should give you a better report if you are not satisfied. I would be happy to work with you on this to give you more information about what it is we do and how we do it, and how, more importantly, we leverage others to do what we think needs to be done.

Because of the size of our budget, we are not going to be successful in going into a country and telling that country they have to reform their economic system. We might be able to take a sector, the agricultural sector, for example, and work with the country on that. But we do work with the World Bank and the IMF—which require, as you know, structural adjustment programs of countries—to try to achieve some degree of synergy in the approach that we take with that country, focusing on it and trying to bring all of the weight of the international community to bear.

To the extent that we do not have sufficient funds for economic growth activities, we are going to be less successful in that leveraging process.

So, I do agree with you. All I am saying to you is that within the overall context of executive branch priorities, and balancing the budget, we cannot ask for more. And Congressional priorities, as is manifested in earmarks, has squeezed the economic growth portion of our budget.

Senator GRAMS. That is why I would like to see the report.

Finally, when you talk about priorities, a lot of people again will go back to the testimony that we had in our hearing last year and others, that economic growth activities are some of the most important you can invest in. Just to quote from some of the numbers from the economic growth programs from the AID budget, where the priorities have gone is, in 1995 it was $725 million, it dropped to $561 million, in 1997 it dropped to $520 million, and now we are down to $508 million. It seems like the priorities are going into other programs and not into these programs. That is why we would like to see some of those numbers.

Mr. ATWOOD. I would just say one thing. Our budget has dropped by about the same amount, too. But I appreciate your interest in this and I could not agree with you more.

Senator GRAMS. Thank you, Mr. Atwood.

Thank you, Mr. Chairman.

Senator HAGEL. Senator Grams, thank you.

Senator Biden.

Senator BIDEN. Thank you, Mr. Chairman. I do have some more questions if the chairman will permit me.

One of the largest programs slated for an increase in the foreign aid budget is the aid program for Russia and the New Independent States. It increases from $625 million to $900 million. It also gets a new focus. The administration proposes to shift the primary em-

phasis from technical assistance to a new program dubbed Partnership for Freedom.

From the initial budget documents I have looked at through my staff that we have received, it is, quite frankly, difficult for me to determine whether this is a new wrapping on an existing program or it's a new program. As of a staff briefing a few days ago, it had not been determined, to the best of my knowledge, relayed by staff, whether this was going to be AID or State, which has been the lead coordinator on aid to Russia, while AID has managed the programs.

Who will be managing the program? I have some questions, specific questions, but I will not go to them yet. Just talk to me about that a little bit, Brian. Is this really something new? I mean, it looks like it's just a new wrap to me, and who is in charge?

Mr. ATWOOD. I appreciate your asking the question. I have been anticipating I would get the question. I think it is an extremely important initiative on the part of the administration.

What we have understood all along here is that our timeframe for working in the former Soviet Union was going to be limited. We don't need to be there for 30 years because the human capacity already exists. The people are well educated. We need to transform those societies, not simply develop them as we do in the traditional sense.

Senator BIDEN. That has basically happened with the SEED and the Freedom Support Acts in Estonia and it looks like the Czech Republic and Slovenia.

Mr. ATWOOD. That's right.

Senator BIDEN. Those are actually working.

Mr. ATWOOD. Those are places that we are actually leaving. I might say that it won't be long before we are able to leave the Central European countries. They are actively talking to the European Union about joining the European Union, and we believe that those economies have stabilized and that they can be sustained.

So, what we are talking about in the former Soviet Union is the need to get to that point. What the Partnership for Freedom underscores more than anything else is our intention to create a partnership that will endure after our aid program is complete.

The technical assistance aspect of it continues to be important because aspects of creating institutions that will survive still haven't been complete. We are not talking about a budget category. Phrases like Partnership for Freedom are as much political and diplomatic as they are a budget category. We are trying to send a message to the people of Russia and to the people of other states in the former Soviet Union that we believe that this relationship is going to evolve into a real partnership that is founded on trade and investment, cultural exchanges, and the things that normal countries can do.

Senator BIDEN. Kind of like Supplemental Social Security. It's easier to swallow.

Mr. ATWOOD. I don't know the analogy.

Senator BIDEN. That is what I meant by a new wrapping. Supplemental Social Security is welfare. But to provide dignity for people who are on it, we don't call it welfare. We call it Supplemental

Social Security or SSI. It's welfare. It's nothing that anybody paid into. I think we should do it.

Is that a State Department way, coming from an AID guy, telling me in "State Departmentese" that this is a new wrapping? What I want to know is, is this a new wrapping.

Now I have no problem with a new wrapping. I am just trying to figure it out. I am trying to figure out what it is.

Mr. ATWOOD. I think that you cannot obviously give us the money on the basis of the wrapping. I understand that.

Senator BIDEN. Oh, sure we can, by the way, because I think the existing program is a pretty good program. I mean that sincerely.

I think the program is working well. I think the evidence is the fact the skeptics, who when I drafted the first SEED legislation, said that this would go on forever, for 30 years. Here we are, with the Czech Republic and Slovenia and the last year with Estonia. Actually it did a job. It is not the only reason these countries are beginning to make it, but it helped, and we are getting out.

So, I guess the problem I have, Brian, is I think there is so much hocus pocus—no, wrong phrase. There is not enough straight talk about these programs. So, when many people, particularly people without institutional memories, or many of us with institutional memories hear about new programs with different names, and we look at them, examine them, and cannot see any substantive difference other than more money, I would rather somebody come and say hey, look, here is the deal. This is an evolving relationship. We are changing the name because it is softer to the ears of our Russian friends and we are going to put more money into it because we have made this much progress so far and we think more is needed now.

But that is talking like a Judiciary chairman or ranking member and not a foreign policy type. But we get up here. With all due respect, but no wonder Senator Grams and I get questions like hey, why don't we just cut foreign aid. If we cut foreign aid, we cut 1 percent of our budget. It would not balance anything. But no one believes that because they do not understand all of this.

So, what I am trying to get you to do is to take off your academic/foreign policy type hat and be a plain, old staffer answering the question of a constituent who, when he writes to me, says Biden, why did you vote for another $300 million for a thing called—what is it called——

Mr. ATWOOD. Partnership for Freedom.

Senator BIDEN. [continuing]. yes, Partnership for Freedom. Answer that plain, old question.

As I said, I'm with you. I think you are right. But tell me why. Tell our colleagues why. Put into the record why.

Mr. ATWOOD. Let me try again.

When we get involved in any country around the world, our ultimate goal is to leave because we want to be able to say that we helped them sustain an economic and political system that will last. What we are doing here with Partnership for Freedom is being very explicit about what our intention is. In this case we are going, in the next few years, to complete the task of providing technical assistance so that the institutions can be created to support a functioning market and democracy. We are starting now, if you

give us the resources, to promote business trade and investment, and to mobilize capital so that those kinds of relationships take over.

Senator BIDEN. Can you give me an example of how? In other words, what you have said to me, as I understand it, translated into my simple jargon, is that you take part of the money that you are going to get and you're going to continue the existing initiatives that were underway, which are basically technical assistance, which range across everything from helping them to set up a stock exchange to determining whether or not a certain industry is going to get a boost, help in terms of administrative know-how.

Now you are going to do something else. What are some of the "something else" you are going to do in terms of this additional $500 million total? You may not be prepared to do this now.

Mr. ATWOOD. No, I would like to do it.

Senator BIDEN. Good.

Mr. ATWOOD. Part of it is to create an Export Import Bank credit facility that will help facilitate relationships between small businesses in our country and small businesses in Russia, for example, or other parts of the former Soviet Union.

Senator BIDEN. Because, because they do not know how to do that very well—right?

Mr. ATWOOD. Because their companies that have been privatized need to be restructured and we feel that a partnership with U.S. business, if we can facilitate that through the Eximbank, would accomplish that purpose.

Senator BIDEN. To put it another way, if they do not partner up with somebody, they are not going to be able to do it because they don't know how to do it.

Mr. ATWOOD. Absolutely. That is exactly right.

We are going to be endowing some of the NGO's that we have been working with in the past—the Eurasia Foundation and the Inter-News, for example, which has done so much work with us in that region—so that they can continue to work after our aid program is over.

We are going to try to help create those kinds of linkages between ordinary American institutions and ordinary Russian institutions.

I think that the word "partnership" is meant to mean something. It isn't just a diplomatic phrase. It is designed to establish the linkages that we will need to feel confidence in the relationship at the non-governmental level well into the future.

Senator BIDEN. My time is up. But one of the things I find when I get asked why, because it became a big issue, why I authored the SEED legislation which is giving away all of this money that should have gone to Seaford, which should have spilled over into Selbyville and over into Salisbury, the Senator from Maryland's home town, was this. I said hey, look, they don't know how to set up a stock exchange. So, we are spending money to teach them how to trade, how to actually generate capital. They say what do you mean, do you mean actually teach?

Yes. Here is what we are doing. We are actually teaching.

With all due respect, I think in order to win this debate—and you have a really good person behind you in Jill Buckley, whom I

know from another life—you have a campaign on your hands. I respectfully suggest that you had better start translating this stuff from NGO's, whatever that means to most people's minds—I know what it means, but whatever it means to them—into hey, look, this is common sense. What we are doing is these small businesses are going to go under unless they partner with us.

They understand. They understand in my State that the small boutique in Laurel, Delaware goes under unless the Chamber of Commerce has a little group out here. They have people come. They teach them how to keep their books.

Anyway, thank you.

Mr. ATWOOD. I could not agree more, Senator. We will try.

Senator BIDEN. Give it a shot.

Mr. ATWOOD. Yes.

Senator HAGEL. Senator, thank you.

Senator Sarbanes.

Senator SARBANES. I thank you very much, Mr. Chairman.

I'd like to draw you out first on this move into the new Ronald Reagan office building. I take it that will enable AID to consolidate bringing all of its activities into one location, is that right?

Mr. ATWOOD. That's right, Senator.

Senator SARBANES. How many locations have you now?

Mr. ATWOOD. We have 11 locations now.

Senator SARBANES. How many?

Mr. ATWOOD. It's 11. They're scattered everywhere—Rosslyn, Virginia, Washington, DC. I don't think we have any in Maryland, but maybe. It is a tremendous saving to bring everybody together in one place—with less space, by the way, than they have now, and they are complaining about that. But that is what we have to do.

Senator SARBANES. Will that then enable the State Department to consolidate into the State Department building? How does that work?

Mr. ATWOOD. About a third of our people are in the old State Department building and some parts of the new State Department building. We will have to vacate that space anyway because the old building is 59 years old and has not had any repair work done on it for 25 years. So, we would have had to leave for 6 months to a year, which would have cost us a lot of money anyway, which is why we have been working with State over the last 5 or 6 years on a consolidation plan that would enable State Department to close some of its annexes, which it has about 15 or 16 of, and move into the State Department building.

Senator SARBANES. Let me get this straight. They were going to have to redo the building at the State Department in any event, is that correct?

Mr. ATWOOD. That's right, Senator.

Senator SARBANES. If you weren't going into the new building, you would have had to move out of the State Department building and lease space somewhere? Is that correct?

Mr. ATWOOD. That's right—at considerable cost. That's right.

Senator SARBANES. Now you're going into the Ronald Reagan building and bringing in all of your outlying activity. Will everything be there then or will you still have outlying activity?

Mr. ATWOOD. Everything will be there, Senator.

Senator SARBANES. OK. Now once the State Department remodels or refurbishes the old building, they will then consolidate into it their activities that they now have out in annexes, is that correct? Is that leased space in the annexes?

Mr. ATWOOD. It's leased space from commercial firms, as opposed to being in a Government building where your rental arrangements are more predictable over a long period of time.

Senator SARBANES. Well, shouldn't the cost comparison, the money comparisons that are made about your move into the Ronald Reagan building also then encompass the savings which the State Department will realize by being able to consolidate into the State Department building their activities that are in leased space which will be made possible by the fact that you are moving out and going into the Ronald Reagan building?

Mr. ATWOOD. Yes, they should, and we do have charts to show you those figures. If you'd like, we can submit those for the record.

Senator SARBANES. I think it would be helpful if you did that.

[The following material was subsequently supplied for the hearing record by Mr. Atwood.]

MOVE TO RONALD REAGAN FEDERAL BUILDING

The decision to consolidate USAID in the Ronald Reagan Federal Building will free up about 390,000 square feet of office space for the Department's use. It will also provide the Department of State with other considerable benefits, including the elimination of the need for a large amount of swing space, reduction in the number of multiple moves by Department offices and bureaus, the reduction in the number of State, USAID, and ACDA annexes from 43 to 28, and lower communications, transportation and security costs due to consolidation of personnel.

There will also be improvements in productivity as a result of the Departments' consolidation. The Department estimates that they will save at least $15 million in one time costs associated with leases for swing space and double moves. In addition, they anticipate significant reductions in the roughly $6 million annual cost of shuttle bus service and lost productivity caused by employees being bussed from one building to another for meetings.

Estimates prepared last summer showed that the cost to the taxpayer of canceling USAID's move would be about $151.8 million. This was made up of $96.2 million in General Services Administration costs, $12.3 million in Department of State costs, and $43.3 million in USAID costs.

The Department estimates that if the decision to move USAID to the Ronald Reagan Federal Building were reversed at this time, USAID to remain in Department of State space, it would cost them about $38 million - more than triple the estimate provided last summer. The prior cost estimates for GSA and USAID would also be much higher if the decision were reversed at this late date.

Senator SARBANES. I take it, then, if you calculate all of those costs, both the costs that you save by moving into one location, the costs the State Department saves by bringing its activities into the State Department building, the costs that AID saves by not going out into a leased space while the building is being refurbished, all of that added up together ends up, just from a dollar point of view, representing a saving—is that correct?

Mr. ATWOOD. It represents a significant saving to the American taxpayer. That's right, Senator.

Senator SARBANES. Well, I think it is important to get all of that on the record because I don't think it is very clear. I expect at the time that you move in there will be some kind of story in the paper sort of making the point that AID is going into this new Ronald Reagan building without analyzing all of these cost factors which, in fact, just simply from a dollar point of view, let alone from, I

take it, the efficiencies you think you will achieve by having everybody in the same place, but just from a dollar point of view makes it a wise move.

Mr. ATWOOD. I think so, Senator. We have had a bit of a problem. We have had the GAO looking at all of our figures. They understand, of course, that when you are talking about speculation—in other words, if we didn't move into the new building and we had to move out of the State Department building and into new space, or if we took everybody and tried to find space that was cheaper than the new building, what would that space cost, the problem is that it is all at commercial rates and we would have to negotiate those rates. We would get ourselves into a difficult negotiating position if we made public what we thought those costs were going to be.

But I think, even despite all of that, GAO has come down on our side and said this is going to save the taxpayers a great deal of money to do this.

Senator BIDEN. Senator, I don't think they will spend much time on it. They will be amused by the fact that an AID building is called the Ronald Reagan building. That's a little bit like having an annex to the Pentagon named the George McGovern annex.

Mr. ATWOOD. I would like to have the USAID budget that Ronald Reagan had when he was President. I can tell you.

Senator SARBANES. Actually, he had a pretty good budget.

Mr. ATWOOD. Yes, he did.

Senator SARBANES. And the State Department also had a pretty good budget, because I remember Secretary Shultz, when he finally left, expressed some appreciation, at least privately, to the Members of the Congress for the support that we gave him in the budget so that he could meet his responsibilities.

Let me just turn to the Mideast for a moment. The peace process continues to move forward, albeit with some difficulties. But I take it that within the administration there is a commitment to the notion that the U.S. assistance in that area is important in helping the peace process along. Would that be correct?

Mr. ATWOOD. Absolutely, Senator. We have expanded our activities. As you know, we are working in the West Bank and Gaza. I want to say one thing.

I feel very, very proud of the contribution that USAID made to the resolution of the problem in Hebron. It was a USAID engineer who went in and offered some suggestions as to how to build the road that goes through the center of Hebron. It was a crucial aspect of that agreement in the last minutes. We offered some proposals for changing that road that we're working on now that I think was crucial in reaching the agreement.

Senator SARBANES. Do you think we are sufficiently addressing Jordan's needs given their importance in the peace process?

Mr. ATWOOD. Well, I think it is an extremely important country. We have had a program there for some years, in Jordan. Whether we are adequately addressing their needs I guess I would not want to speculate about. I think that our request for resources for Jordan is an adequate one and I would prefer not to speculate about whether or not King Hussein agrees.

Senator SARBANES. The one other thing I wanted to touch on is this. We have certain programs, international development programs where we have been cooperating with Israel and they have been active I think both in developing countries and in the newly developing states in Eastern Europe. There is some view that their own experience in development plus the fact that, at least with Eastern Europe and the former states of the Soviet Union, they have a number of recent immigrants who can handle the languages or who are experts on the country and so forth, helps them here. How are we doing on those shared programs?

In fact, I guess the real thrust of my question is this. The Congress indicated that we wanted those funded at a certain level and I think they got funded at a somewhat lesser level in the past fiscal year.

Mr. ATWOOD. We work very closely with the Israelis on these programs. They have some of the best agricultural development specialists and water specialists in the world. You are right. They do have the facility to actually communicate in the former Soviet Union. So, that is also very useful.

I do not think that the Israeli Government would suggest to you that some of the minor cutbacks were all that significant. There was a slight problem with the pipeline. So, we are working with them to make sure that they are efficiently getting all of the resources we provide out. But I think it has been a good relationship and we will continue to work with them in the Middle East and in the former Soviet Union.

I think our 1997 money was $8 million for that program. We believe it helps us achieve results.

Senator SARBANES. I take it you are going to do in the ASHA program?

Mr. ATWOOD. Not if what I hear up here is accurate. I think the ASHA program continues to be well supported by Members of Congress, Senator.

We have asked for $5 million this year for FY 1998. We are fulfilling our commitment to the Congress that we made last year to combine that with $9.6 million that we still have available from 1997 funds and do a major competition for ASHA grants as soon as the fiscal year begins.

Senator SARBANES. Well, there is a perception that we have gotten a lot of benefit out of that program. I know you have difficulties on occasion because I guess you are put to the test amongst many, many institutions who are seeking assistance. But I do think, as you well know, there is generally the perception that it has worked pretty well.

My time is up. I have a couple of additional questions, but I will defer now to my colleagues.

Senator HAGEL. Mr. Atwood, especially in light of having both Senators Biden and Sarbanes here, I would like to talk a little bit about your thoughts on reorganization of AID. Obviously, I have very limited institutional history of this organization. But I do know a little bit just in reading and trying to bring myself up to date and it appears that over the last couple of years you have been, maybe "strident" is too over-stated, but at least from what I have read, a critic of reorganization, folding AID into State.

I have before me various quotes that are attributed to you when you were advising then-Governor Bill Clinton on what we should do on AID, not particularly flattering to AID management. But in light of Senator Biden's and Chairman Helms' conversations with Secretary Albright and some of my conversations with her, I would be very interested in knowing where are we with you on reorganization. What are your thoughts?

Mr. ATWOOD. The obvious answer is to say I have an open mind, I guess, Senator. But I believe very strongly that there are areas that need to be dealt with in terms of overlap and duplication, not as many as one would think. I believe very strongly that we should continue to pursue rationalizing our administrative support functions.

Again, I think that there is not as much saving as some people have suggested in doing that. I believe that we should find ways to improve coordination and efficiency, and if that means, in the case of USAID, putting USAID into the State Department more explicitly than it already is, then I certainly think that there are some creative ways in which that could be done, I have actually had some discussions with Senator Helms' staff about that.

I am trying to be as forthcoming as possible because I do believe that we can create a more efficient operation. But I do believe that every one of the foreign affairs agencies has to continue to reform itself from within so that we can find the cost savings that are necessary there and stop doing some of the things that were necessary during the cold war.

I certainly am not qualified to talk about the other agencies, USIA and ACDA. I know they perform important functions.

On USAID, from my perspective, as I have said before and I've said it to the Secretary of State—and I say this not from the point of view of trying to protect turf by any means—I think there are three factors that are important if we are going to have a development program that works. One is that we need to protect our long-term strategic investments. You come from business, Senator, and you know that when there are tough times, the research budget of a business is the first to go. It is very important for us to be able to maintain our investments in the future for all of the reasons we have been discussing here today.

So, I think the way the law is written on the books now, to assure that development assistance is handled the way the Congress wants it handled and the way we have agreed since the Marshall Plan it should be handled, in a separate but supported way, I think those laws should be maintained.

The second is management tools. The most modern thinking in the corporate world today is if you have a unique function and a unique mission that requires special management tools, then the idea is not to merge into bigger and better things, but it is to spin off and make sure that there is a close coordination and relationship with the mother company, if you will.

That is the way it has been. But I believe that you can preserve those management tools by having an even tighter relationship between USAID and State. I mention one suggestion is having a solid line relationship with the Secretary of State. The Secretary of State is today not theoretically directly responsible for USAID programs.

I am, although she is responsible for offering me all of the foreign policy guidance that should exist.

I personally believe that I have always worked for the Secretary of State. But I think we need to formalize that. I have no objections to doing that.

The third point is if we are going to be successful in working with other donor organizations around the world, the 21 bilateral donors, the World Bank, UNDP, and others, we need to have a development Agency that talks to those people in development terms. We need not downgrade. We already have a harder time now going into international meetings in light of the fact that we have fallen to the number 4 place in the overall amount of resources we offer to development assistance.

I deal for the most part with ministers for development and cooperation overseas. I am an "administrator." Nobody knows what that is overseas, but they accept the fact that USAID has been in this business for so long that we are respected and they ignore my title. But I don't think we should downgrade the mission. We should find ways to see if we can enhance it in order to make us more effective in leveraging.

Those are the three issues I have discussed with the Secretary. I have discussed it with the President and with the Vice President. Beyond that, I am not going to fall on my sword over changes in the relationships that we have within the executive branch.

Senator HAGEL. Do you believe that your title might be more meaningful if you were addressed as "Mr. Secretary," or, for example, "Under Secretary of State" for something?

Mr. ATWOOD. No. I have had two occasions when I was an under secretary and an assistant secretary, and I guess that is the way people address me. But when you come from a poor blue collar family in a small town, it doesn't make a lot of difference what you're called. I've been called a lot of things.

Senator BIDEN. When they say "Secretary," they think it means you work for the boss.

Mr. ATWOOD. That's right. Exactly.

Senator HAGEL. Well, let me see if I can get a little closer to this.

Your thoughts are not particularly positive about rolling AID into State, reporting directly to the Secretary of State as an under secretary? Yes? No? Maybe?

Mr. ATWOOD. I think, Senator, beyond what I have said, I am already on dangerous ground. I think that my role in this whole process is to provide information to the President, to the Secretary of State, to provide my advice, I should say, as to how this could best be done. If I start getting into those kinds of specifics, I am really going to be in trouble, if you don't mind, Senator.

Senator HAGEL. Well, you just blame it on me, Mr. Atwood. I know my colleagues won't mind.

Why don't I at this point, if it is all right with my colleagues, let you all pick up if you want to pursue this at all.

Senator BIDEN. There is an old joke, Mr. Chairman, about the two brothers. One brother had not gone on vacation for 15 years. He leaves. He goes to Hawaii and leaves his cat with his other brother. He loves his cat.

He gets into the hotel room in Hawaii and the brother calls and says John, your cat is dead. John says my cat's dead? Why wouldn't you call me and tell me your cat got out of the house, and I couldn't find him, and then the next day call me and say we think the neighbors saw it, and the next day call me and say the cat's on the roof, and the next day say the fire department is here to get it, and when they went up and got it the cat fell and broke its neck? He said why wouldn't you do that instead of ruining my whole vacation.

So, about 5 years later he goes on a second vacation. John's brother calls and says John, mom's on the roof.

Well, I'm here to tell you, Brian, AID is on the roof. AID is on that roof. I think it is pretty important to figure out sooner than later how you all figure is the best way to make it work rather than for us to come to you and tell you. Unless I am mistaken, and I very well may be, as I kind of read the tea leaves around here, this is a different body, a little bit different than before, and I think there may be enough votes. Also, as you well know, former Secretaries of State have not been averse or opposed to the notion of you coming within their gambit more directly.

I mean it sincerely when I say this. No one knows it better than you. No one knows AID better than you. I really would respectfully suggest that, as quickly as you can, privately, you lay out the best organizational plan you think that can maintain the functions, the prominence, and the standing and stature of AID so that you are not subsumed.

My colleagues' guess is probably better than mind. But my guess is that that is the direction in which this thing is moving.

Now I have one specific question. There is a new program, a new budget request providing for a new loan program to be administered by AID which is designed to provide capital in countries which have problems getting access to capital. This is as I understand it. The idea is to use $10 million in credit to leverage up to $67 million in loans and guarantees.

Now I will be blunt with you. My first reaction is this is a bad idea. If a country is credit worthy, then, given the great explosion and availability of credit out there in the world markets, it is going to be able to get access to that capital. If it is not credit worthy, then we may be taking an undue risk, and the subsidy cost of the loan will rise. This is because under the 1990 Credit Reform Act, the cost of risks of a loan must be honestly scored, which was not the practice before 1990.

Moreover, in my view—and, again, I am prepared to have my mind changed on this—in my view, this ought to be a function of international financial institutions, particularly IDA, which is the soft loan or concessional loan window of the World Bank.

Finally, I think AID has had enough problems that it does not need to take on the burden of managing another loan portfolio.

That is a long background for a short question. Why do you think this new authority is necessary and why would you want it, given the down sides?

Mr. ATWOOD. Well, we have asked for a small amount of money, Senator, $10 million, which we think we can leverage into $67 million of capital. I agree with you we should not be doing this in poor

countries that do not have, for example, the banking infrastructure that we can work with to make this work. But there are some countries we work in, like South Africa, where we have a first world economy and a Third World society as well, where the banking structure is adequate. Here we can go in and work with the banks to leverage with our backing the money necessary to do things that are important, that are developmentally sound, and that are credit worthy.

Senator BIDEN. But, Brian, why isn't this able to be done in—is there some unique role that this credit window will fill that existing institutional windows do not fill? Or is it just immediacy of access, decisionmaking, able to be facilitated? Why?

Mr. ATWOOD. The fact of the matter is that our USAID missions abroad are there, and in larger numbers, I might add, than any other development Agency, because we have been able to take advantage of targets of opportunity.

We can see what needs to be done, and if we have the flexibility of being able to work this so that we can develop a public/private partnership in a country to get the job done, then I think we are going to be enhancing our capacity to achieve results in our own development program.

We would use this for developmentally sound and credit worthy projects. For example, this enhanced credit authority may be an appropriate tool to finance a municipal bond guaranty program for infrastructure projects such as the one I saw in Indonesia, where we are trying to help clean up neighborhoods, and in urban environmental kinds of programs. Really, if you can leverage $1 million and turn it into $10 million, you are going to be able to achieve that much more by working off of the local economy to the extent it exists.

We would like to ask you to give us a shot at trying this. The previous criticism was that we couldn't manage credit programs adequately. The Credit Reform Act was subsequently passed by the Congress and we fully comply with the Credit Reform Act. We are a lot more conservative about how we would use this kind of thing. We would use it in countries that are credit worthy, like the Indonesians and the South Africans. We would not use it in the poorest countries.

But given the cutback in our own budget, we think it is important for us to have this additional capacity so that we can get more done with the fewer dollars that we have.

Senator BIDEN. Well, as I said, I have an open mind. I find it almost counter intuitive in that, as we are trying to, or at least as I think we should be trying to streamline, to limit duplication in functions, this kind of goes in the wrong direction. But I am not a slave to symmetry here, that it has to balance. But I find it difficult.

I will not pursue my last question except in writing, Mr. Chairman, because I have kept everybody too long. But I would like to have a chance to discuss something with you. I will submit it in writing, just so your staff has something to do. I know they have nothing to do except answer these questions and that they would be disappointed if they got out of here without having to answer anything.

I think one of the things that we have done is we have tended to micro manage projects. There is the ability of staffers and individuals to put holds on initiative you have and so on. I have a series of questions in which I would like you to estimate—and I would like you to make a very serious attempt to do this; I'm sure you will—how many man-hours are consumed when you find yourself having to deal with the notification process and the responses to it. It seems to me as we are trying to clean up—"clean up" is the wrong word—trying to consolidate functions of our foreign policy establishment that we should play a little piece of that, too.

With permission of the chairman, I would like to submit to you several questions in writing. That is what we are about and I will not take the time to go through this here.

Thank you.

Mr. ATWOOD. Thank you, Senator.

Senator HAGEL. Thank you, Senator.

Senator Sarbanes.

Senator SARBANES. I think before this hearing ends I just ought to register this observation.

I think if we are going to be committed to a goal of providing sustainable development and perceive that as in our interest, we have to be very careful about what the institutional arrangements are that we establish within our foreign policy structure in order to do that.

I, for one, feel quite strongly that simply to merge AID into the State Department would be to lose sight of that objective. I think it would be downgraded. That is one of the reasons why AID is separate. That is why most previous studies have recommended that.

Now the fact of the matter is, my perception is that AID has come much further in terms of improving its administration and effecting its bureaucracy than the State Department has.

Senator BIDEN. Yes, it has.

Senator SARBANES. I hardly can sit here and sort of see the State Department as a paragon of how the bureaucracy ought to work and, therefore, AID ought to be consolidated into it. That is not my perception. All these former Secretaries of State, after they are no longer Secretary of State, say this is how it ought to be structured. But they never said it when they were Secretary of State I have to take that kind of advice with a couple of aspirin.

You wonder if it was such a good thing, why didn't they do it when they were there in the position to do it. In fact, not only did they not do it, a lot of them had statements directly to the contrary on the record.

Now I think this is an important issue. I think so for two reasons. One, I think that there are a lot of people who say we agree with that substantive goal and that's what we want to achieve. But then they fall into sort of doing institutional arrangements which would run counter to the substantive goal.

Second, I am not for spending a lot of time on institutional arrangements. I am willing to do things that appear to be obvious on their face that ought to be done. But if there is some kind of close call to it, we ought to get on about the substantive work.

I mean, there are health programs out there that need to be done. There are agricultural programs that need to be done. There

is micro-enterprise that needs to be done. There is small business and democracy building that needs to be done. This is a real challenge right now, and we have a real opportunity.

One of the things that I have the greatest concern about is that history will look back on this period and say hey, you had a real opportunity back then when the Soviet Union imploded and the cold war came to an end to take the whole world to a different level in terms of its commitment to peace and prosperity, and that opportunity was lost. You failed to take advantage of it.

I think to take advantage of it we have to come to grips with some of these substantive problems.

My own view is that you might have been up on the roof 4 years ago, but, in reality, you have gotten down off the roof if someone would just stop and look at what has been done in AID. Now if they continue to operate under the old perceptions, then there is a problem, obviously. There was a problem. I think you faced a very tough task when you took over at AID, a real challenge. As I quoted earlier from Chairman Gilman over on the House side, I think you have revived an Agency that was in critical condition, and that is no small achievement. It speaks well for what is being accomplished and I think offers a lot of hope for what can be accomplished.

So, I hope, as we deal with the Agency and address some of these problems, that we will be sensitive to what has been done, to what your mission is, to the importance of your mission and the need to keep that, I think, uppermost in our minds as we address some of these organizational questions.

Mr. ATWOOD. Senator, I appreciate those sentiments. All I can say to you is that I have absolute confidence that what we propose along these lines is going to make sense—so long as we do not have a rush to judgment on all of this.

I realize the pressures, Senator Biden. But we are talking about something that is going to have to survive well into the next century, something that is going to have to respond to the kinds of threats that face our Nation. These are very large questions. These are not simply organizational box questions.

I feel that I could stand here today and justify the current relationship. I have tried to describe it. I think there is a great deal of coordination. I certainly would not do anything that was contrary to the foreign policy of the United States, nor would our Agency.

But the fact of the matter is that there are some pieces of legislation on the books that have grown moribund. The IDCA law is one.

I do think that in the long run—and I have said this publicly—we have a Secretary of State who really does appreciate the development mission. She understands, having been U.N. Ambassador, that development is a large part of the international dialog between us and those four out of five people who live in the developing world. It is a huge part of our foreign policy agenda.

So, I have absolute confidence that this is going to come out right, that it should be subjected to a rational process inside the executive branch and certainly to consultations with Capital Hill to make it come out right.

Senator SARBANES. Well, the reorganization within the military which finally took form in the Goldwater-Nunn legislation, took an extended period of time, was thoroughly vetted within the executive branch, with a lot of interaction with the Congress and in the end represented the considered judgment of both branches of the Government. I am frank to tell you that I do not think in the foreign policy/national security field the Congress should seek to impose on the executive branch what the structure ought to be. The effort should be to work with them to evolve a structure in which both branches agree.

Obviously the executive has a heavy investment in it. The powers given to the President under our Constitution in the foreign policy field have significantly greater discretion to them than in the domestic field. It would be my hope that we would be able to work with the administration in a way that we can evolve something that everyone looks at and sort of says yes, that makes sense.

Senator BIDEN. Will the Senator yield on that point?

I hope he did not misunderstand the point I was making—not whether the cat should be on the roof or not. I am suggesting to you that the sense of urgency within the administration of the need to generate a position as to how, in what form, any reorganization of the foreign policy establishment should take should be heightened. This is because there is a bit of a problem up here. There is a bit of a problem.

Now Senator Sarbanes and I are willing to have the State Department merge into AID. But we are among the few who are going to do that.

I may be wrong about this, but I just think until these last 2 months, I have not gotten a sense that the administration has felt a sense of urgency to undertake a serious study and recommendation relative to how to deal with this.

For example, were the administration to say—and I am not suggesting this—that we put together a commission of leading people from around the country and over the next 8 months we are going to be looking at this subject, and we will have a tentative draft on what approaches we think we should take by the end of this year, that would calm a lot of people down. The feeling—I think wrongly, but the feeling is—that there is no intention on the part of the administration to move in any way toward reorganization on the one hand and, on the other hand, that Senator Helms has a single view of slash and burn, just eliminate. That is the competing dialog right now.

All I am suggesting to you is the way to get ahead of that curve is for the administration to start to lay out the four corners of the debate, at least; at least set out the parameters in which they think reorganization should take place—if it should.

I am fearful that if you do not, we will find a lot of other things hinging on whether or not reorganization is a serious undertaking. I know others would maybe reject this notion. But I think everything from the Chemical Weapons Convention to your budget will be impacted upon by this larger debate—or smaller, depending on your perspective.

That is all I was suggesting to you. I am not being critical because I think everything the Senator said about your leadership of

this Agency is absolutely accurate. I think it is universally recognized. But it is almost ironically—well, you understand what I mean.

I'm not asking you to agree with me, but I just want you to understand what I am saying.

Mr. ATWOOD. I understand. I do believe that we are in a new era of cooperation and consultation on these issues. I don't believe, based on my discussions with Senator Helms' staff and with Senator Hagel, that we want to get ourselves into the kind of confrontation that we got into before.

I said at the outset that I hope this committee can pass an authorization bill because it is important for this committee to be in the game on foreign policy issues with a bill that the President won't have to veto. I think this is an area for cooperation.

I do not believe we should do anything foolish, obviously. I know you believe that and so does Senator Helms. But everybody has a different perspective and to debate these issues in a legislative forum is different from debating them within an executive branch forum where you are thinking about organization, how to get the job done, and what missions are important for you to do.

So, all I have asked is that people here do not rush to judgment, that you give us a little time to work these issues through.

Senator HAGEL. Senator, thank you.

Let me make one overview kind of statement, Mr. Atwood, on this and then we will move on to a couple of other areas and get this thing tied up.

I think what Senator Biden is saying is exactly right. I think Senator Sarbanes' point about a unique opportunity, of which you and I spoke when we met initially, is exactly right. I think this country has a great opportunity to move into the next century. Foreign policy is going to play a tremendous role in that, crafting a sense of purpose, and that should lead, if we do this right, if we are bold and we take the initiative, to a really genuine lasting peace and prosperity for many corners of the world. What you have been about, what your Agency has been about over the years is just about that, and we are aware of it.

One last point on that. You heard what Senator Grams said, and I think Senator Grams is rather typical in his representation of what he gets from his people back home. I get a certain amount of that and I suspect every Senator does: What are you doing, spending this money on foreign policy? It is a confusing issue. It is an issue that does not link directly with most people, although it should. It is probably the easiest, most inter-related thing we can do. My farmers in Nebraska, my ranchers and small businessmen, their future depends on foreign policy, on opening markets, as do all of my colleagues' states.

So, what we need to do is a better job of what Senator Biden and Senator Sarbanes are saying, and I think Chairman Helms, which is talking plainly, directly, straightly, making sure people understand why AID, or whatever is going to be AID, is critically important to the future of our world, for a more stable world.

But I do say again that I think Senator Biden's point is exactly right. I will not be a Senator who rushes you or anyone else into something where if it looks better in a different box, let's just do

it. That does not make any sense and I will not do that. But we do have to get a more efficient, effective use of our taxpayers' dollars and I think that guides us all up here.

Now, moving on to other things, I wanted to ask, Mr. Atwood, a couple of other questions.

I was made aware a couple of days ago of a practice, as I understand, in some foreign countries, governments, regarding the taxation of U.S. foreign aid. It appears that many nations or some nations view foreign aid in exactly the same way they view their imports. For example, I have been told that the Government of Haiti has now imposed what it calls a 4 percent "verification fee" on U.S. aid. I understand that is also the case or that there is a similar case in Ethiopia, Peru, Bangladesh, and other countries.

You are probably aware of this. Could you give us some clarification, first of all, as to if it is accurate, and then what is this all about?

Mr. ATWOOD. Well, we have had some problems, confusion. International standards are such that we do not pay taxes on humanitarian assistance that is provided to countries. One of the problems we have had that we have tried to work out with the International Monetary Fund is this. They have gone into countries and they put so much emphasis on making sure that a country is collecting all of its taxes that some of these countries have misinterpreted that message and have, indeed, placed taxes on these kinds of assistance.

In the case of Haiti, for example, when they were attempting to do that at the port, we communicated with the IMF so that they would clarify their position vis-a-vis the Haitian Government, and we have now resolved that problem. As each of these problems comes up—and, by the way, they have been coming up for years; this is not the first time—we have managed to resolve it and to preserve the international standard, which is that humanitarian assistance is not taxed.

I can give you more details about the specific countries that you mentioned and give you some information about how we have resolved those problems if you like for the record.

Senator HAGEL. Thank you. I appreciate that.

[The following material was subsequently supplied for the hearing record by Mr. Atwood.]

TAXATION OF U.S. FOREIGN AID

In the case of Peru, decrees, issued in April of 1996, made it difficult for NGOs to receive international donor assistance on a tax-free basis. The ambiguities in the decrees raised tax treatment questions for USAID-financed programs to NGOs and the government of Peru (GoP). Our mission in Lima, has been actively engaged in negotiations with the GoP to resolve the issues. These negotiations have taken two tracks: an annual Memorandum of Understanding (MOU) with the GoP to provide the necessary tax exemptions for NGO programs that may not be covered under our bilateral agreement; and the insertion of appropriate standard provisions in our bilateral grant agreements for those programs operating through the public sector. Negotiations on both fronts have progressed very well. We have signed an MOU for the Title II food aid program, and are using the precedent to negotiate an MOU for NGOs operating in the health and family planning sectors. Simultaneously, we are negotiating final language on the tax clauses of our bilateral agreements. We expect that these negotiations will conclude successfully and return us to the situation that existed prior to the April 1996 decrees--non-taxation of humanitarian assistance.

In Bangladesh, we have periodically experienced problems with demands for the payment of customs duties and the like on vehicles imported into the country by some of our NGO partners. Under our overall Bilateral Agreement with the government of Bangladesh, and under several specific project agreements, such vehicles are supposed to be allowed into the country free of any duties. To date we have been rather successful in resolving these problems as they occur.

Also in Ethiopia, government decisions to begin to tax humanitarian assistance created implementation issues with our program. As a result, there were considerable delays in the importation of goods into Ethiopia, long storage periods at ports and customs holding areas and a rise in associated costs as well as interruption in project implementation. Call forwards for Title II Regular food aid were suspended. Since that time, the health and education ministries have assumed the duty on our assistance in these sectors. In February, the government agreed to let the Disaster Prevention and Preparedness Commission (DPPC) cover the duty of Title II Regular food aid until the end of the Ethiopian fiscal year (June 30, 1997).

Senator HAGEL. There is another issue I want to bring up. I understand that we have something called the pipeline in this business, like in other businesses, and that there appears to be, at least I am told, a considerable amount of money that is in that AID pipeline.

I understand Chairman Helms and Majority Leader Lott sponsored an amendment last year about that, that after 2 fiscal years if that money was not used it be returned to the Treasury.

Could you give us an accounting—give us what you can now, Mr. Atwood, but maybe provide the rest for the record—of where we are on the pipeline?

Mr. ATWOOD. I thank my staff very much.

Senator HAGEL. They just happen to have it.

Mr. ATWOOD. As for specifics here, we have a chart that shows that our ability to manage the pipeline has improved considerably over the last 4 years. We are down $1 billion in our pipeline. In Fiscal Year 1996, in the developmental assistance accounts, it was only $3.2 billion versus $3.6 billion in 1994.

The point is, obviously, that managing the pipeline is a good indication of how well you are managing the Agency. We have reduced this pipeline, as I mentioned before, over time. That, by the way, was just development assistance. The total pipeline has been reduced by $1 billion since the beginning of Fiscal Year 1995.

Whenever you sign a contract, for example, with AT&T, to build a telecommunications system in the city of Cairo, you create a pipeline. It might take them 5 years to build that telecommunications system, but you create a pipeline right off the bat. I think you, having been in business, understand how this goes. If you don't sign a multi-year contract with some institutions, they are not going to be interested in working with you. They need to be somewhat assured that they are going to have some business before they begin hiring people to do the job.

So, I agree that you should continue to pressure us on how we are managing the pipeline. We have developed, as part of our new management system, a capacity to look at a pipeline with a graph just like this (indicating) for any country in the world and tell you exactly which account is available and how old the money is within that account. That gives USAID a management capacity that it has never had before. The Administrator, even, if someone trusts him to look at these kinds of issues, can turn around and punch a button on his computer and actually bring up the pipeline for any given country nowadays. That is especially useful today because we

have to reprogram resources because we do not have enough to get by. If there is a project that is not working and it is old money, it causes you to raise the question right off the bat: Why is that old money hanging around? It is obviously not working for our interests.

So, I think we have really managed this a lot better than it has been managed in the past.

Senator SARBANES. Wouldn't you say, though, I understand that a 2 year limit on your pipeline might not give you enough latitude to handle some of these projects which take much longer than that to do? Wouldn't that be correct?

Mr. ATWOOD. That is absolutely right. We are already getting into an area here where some institutions may not wish to work with us because they don't have the confidence that the program is going to go on long enough. It is bad enough having an annual appropriation and not being sure. But once we get that appropriation, we would like to create projects that do take that much time to get done with institutions that are sure of the relationship they have with us.

Senator SARBANES. If I could continue, Mr. Chairman——

Senator HAGEL. Sure.

Senator SARBANES. [continuing]. the other point is, aside from getting the institutions to work with you, some projects to be done—for instance, you are going to do the water and sewer system for Cairo, let's say. Well, the way to do the water and sewer system is to do the system. That is the best way to do it. That is the way you bring in the best institutions. That is the most efficient way to do it.

But to do the water and sewer system of Cairo is not a 2 year project.

Mr. ATWOOD. No. Absolutely right.

Senator SARBANES. And to do part of the water and sewer system of Cairo is not the way to do the job, correct?

Mr. ATWOOD. That is absolutely right. The other aspect of it is making sure the Egyptians are involved so they can maintain the system after we leave it behind. These things do take time and require the training of local contractors and the like.

Senator HAGEL. You are not now living under that 2 year notice?

Senator SARBANES. I believe it's 4 years.

Senator HAGEL. Is it 4 years or is there nothing stated?

Mr. ATWOOD. I am told there is no statutory limitation. But I can give you statistics on this in terms of the amount of money that is over 4 years old. There is very little money that is over 4 years old.

Of our total pipeline, which is $7.5 billion, only $500 million is older than 3 years.

Senator HAGEL. OK. Thank you.

Senator Sarbanes or Senator Biden?

Senator SARBANES. I have some questions from Senator Feingold for the Administrator and will submit them. They can be answered for the record.

Senator BIDEN. I have no further questions, thank you, Mr. Chairman.

Senator HAGEL. Senator Sarbanes, do you have anything further?

Senator SARBANES. Nothing.

Senator HAGEL. I, too, will ask, Mr. Administrator, for you to respond to some additional questions. I will ask for unanimous consent to keep the record open till close of business Friday—without objection.

That is the way we will give our colleagues here—and you know the drill, Mr. Administrator—additional time to ask any questions for the record.

I just want to say that I am grateful that you would be forthcoming. I look forward to working with you on this issue and others. What you are involved in and your reach is considerable. It is important and we all have a responsibility, as I said, and my colleagues, who have been at this, shouldering the wheel, much longer than I have, a responsibility to speak plainly and directly to the American public to help explain why what we are doing is in their best interest.

If there are no other comments, we are adjourned. Thank you.

Mr. ATWOOD. Thank you.

[Whereupon, at 4:30 p.m., the hearing was adjourned, to reconvene at 11:02 a.m., February 27, 1997.]

THE STATE DEPARTMENTS ADMINISTRATION OF FOREIGN AFFAIRS FISCAL YEAR 1998 BUDGET

THURSDAY, FEBRUARY 27, 1997

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:02 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Rod Grams (chairman of the subcommittee), presiding.

Present: Senators Grams, Feinstein, Robb, and Biden.

Senator GRAMS. I would like to welcome all of you to this hearing. I do have a brief opening statement. We do expect Senator Biden to be here shortly. Also Mr. Robb is here, and any others that might join us between now and then. Then we will also take time to listen to your opening statements, as well.

I will just say, if we go more than 6 or 7 hours, we will take one break in between. So, just to let you know.

Mr. KENNEDY. That is much appreciated, sir.

Senator GRAMS. But, again, I want to welcome all of you to this first hearing of the Subcommittee on International Operations in the 105th Congress, and of course, I look forward to a very busy and also a very productive work schedule for the subcommittee in the weeks ahead. I also want to thank Mr. Patrick Kennedy, the Acting Under Secretary for Management at the State Department, for coming along today to testify before us on the President's fiscal year 1998 request for the "Administration of Foreign Affairs" budget.

Mr. Kennedy, at the outset, I would like to make it clear that I am proceeding with this hearing on the assumption that the administration is developing and will present to Congress a proposal for the reorganization of the State Department and also related foreign affairs agencies. While the subcommittee will not be questioning you today about the specifics of any State Department reorganization plan, I certainly intend to work on this issue with Chairman Helms, Senators Joe Biden and Dianne Feinstein, our distinguished ranking members respectively for the Foreign Relations Committee, and also for this subcommittee, along with Senator Chuck Hagel, who is the Chairman of the Subcommittee on International Economic Policy. It also should be noted that both Senator Sam Brownback and Senator Gordon Smith, who also will serve on

this subcommittee, have also expressed considerable interest in this matter as well.

In recent months, Secretary of State Madeleine Albright, and her predecessor, Warren Christopher, have expressed their concern that America's "diplomatic readiness" had been undercut by inadequate resources. Now, given these statements, I think it is useful to put the President's request for the State Department's "Administration of Foreign Affairs" budget into some kind of a context. A comparison of the fiscal year 1998 budget request to the estimated funding for fiscal year 1997 yield an increase of only about 2 percent. That is just under the rate of inflation.

Now, while I certainly intend to review the increased request of $60 million in the "Administration of Foreign Affairs" budget very carefully, it is a rate of increase that seems relatively modest, in light of the administration's somewhat alarmist rhetoric on our foreign affairs funding. The purpose of making this point is not to argue that the President should have submitted a higher budget request in this particular area, of course. Instead, it is to suggest that despite some of the finger pointing in the direction of Capitol Hill, the decision to curtail certain elements of foreign affairs spending has been driven by stark budgetary realities that both the administration and Congress realize.

Moreover, these are the same realities that the Foreign Relations Committee recognized 2 years ago when it passed a State Department reorganization plan that would have yielded substantial savings. Now, obviously, as the Congress and the administration work toward a balanced budget, both branches are learning to live within new limitations. As a result, tough decisions in setting budget priorities must be made, and both branches should be prepared to take full responsibility for them.

Now, having said that, I want to make it absolutely clear that there is not a single member of this subcommittee or the Foreign Relations Committee who wants to see America's ability to conduct foreign policy undermined by vastly outmoded technology, by crumbling overseas facilities, or inadequate security for our U.S. diplomats. The challenge facing the administration is to demonstrate that not only have the fundamental needs been neglected, but also that the State Department has proposed the most effective and efficient solutions to meet these needs. If this is done, I believe you will find strong bipartisan support for these key areas of your budget.

However, past experience should motivate Congress also to exercise thorough oversight regarding budget plans. Of course one notable example is the construction of the new American embassy in Moscow. Hundreds of millions of dollars have been wasted in a seemingly futile effort to address security problems, and the embassy is still not complete.

I believe it is also reasonable for Congress to ask how some of the budgetary constraints for the State Department's fundamental needs have been compounded. For instance, let us look at the effort currently underway to modernize information technology. It is easy to poke fun at the Wang computers that still sit on so many desks at the State Department, but these monuments to 1970's tech-

nology did not just arrive there last year. In fact, this type of computer technology has been outdated for more than a decade.

I understand that continued reliance on the State Department's Wang computers now presents an additional dilemma as the Agency tries to address the year 2000 problem in a cost-effective manner. The essential question is whether this administration, and possibly previous administrations, have given sufficient priority in the past to maintain adequate information technology within the context of the entire 150 account.

In some ways, this obviously goes beyond the scope of this hearing, but the administrative costs cannot be considered in a vacuum. It is more than a little puzzling that the administration has continued to request millions of dollars for certain development assistance programs which have not been proven effective, while the technology infrastructure that is necessary to carry out U.S. diplomacy has become woefully outdated.

But in any case, this hearing is really the Senate's first opportunity this year to examine the State Department's operations and programs in depth.

So, again, Mr. Kennedy, we want to welcome you here to present the Department of State's Administration of Foreign Affairs budget for fiscal year 1998, and also to outline the Department's priorities. I hope that this hearing will be the first step in getting down to business to craft the legislation, within the context of a balanced budget, that adequately funds the infrastructure the United States needs to advance its foreign policy objectives.

So, again, I want to welcome you. I see Senator Feinstein is here as well this morning, and I would like to turn it to you for your opening statement.

Senator FEINSTEIN. Thank you very much, Mr. Chairman. Let me begin by offering my congratulations on your chairmanship of this committee.

Senator GRAMS. Thank you.

Senator FEINSTEIN. I was particularly impressed to learn you were in fact a delegate to the United Nations, and I look forward to your expertise as we try to restructure a much better and more positive relationship, bring reform to the United Nations, and, eventually, pay our dues.

This hearing may not make front-page news, but I believe that the discussion that we start today is at least as important to the future of the world community as anything else that is happening in the world today. For well over a decade, the United States has been steadily reducing the amount of money it devotes to international affairs, its Agencies, and its programs. When current figures are adjusted for inflation, these cuts in recent years have been significant — 50 percent since 1984. Fifty percent.

As we move toward a new millennium and the creation of a new international system, the United States must have the resources to ensure that strong and proactive diplomacy secures American prosperity and security in the years to come.

In 1991, the Soviet Union collapsed. By many measures of power, the United States is stronger today than at any time in the 20th century. Yet we are consuming our National security capital and diminishing our future influence by refusing to make necessary in-

vestments today. We put at risk our ability to continue to safeguard our future at precisely the time when we need to be able to act decisively to define the post-cold war world that is coming into being.

There are many who believe the world is a safer place because of the Soviet Union's collapse. I am not one of them. With 30 wars now raging across the globe, with the growth of regional and ethnic conflict, with the ability to smuggle nuclear technology the world, in my view, is not at all a safer place.

Now, I do not suggest that we indiscriminately throw money at the Department of State or at any other Department. But I do believe that we must work together to create a more effective and efficient Department of State, and one that is really better able to handle the problems I have just enumerated — the outbreak of regional and ethnic conflicts, the spawning of nuclear technology illegally around the world, the renegade states that potentially offer great threat to our own prosperity and our own security.

So I was pleased to see that the administration has requested an increase in funds for international affairs in the 1998 budget request. I have a number of questions.

I must tell you I was delighted to hear, Mr. Chairman, when you mentioned crumbling facilities and outmoded technology, because I have been in many of our crumbling facilities and outmoded technological missions abroad, particularly, I must tell you, in Asia. In China, the most populous nation in the world, our embassy is in great disrepair. I have been there many, many times. I have never seen a single frill. I have seen leaking roofs. I have seen broken and outmoded facilities. I have seen very little modern technology.

So the needs are there. I think our ability to respond to them, particularly at this time, when the world is once again going through a transition of leadership in the largest country in the world, is extraordinarily important.

I look forward to working with you. I welcome Mr. Greene and Mr. Kennedy, and look forward to their comments.

Senator GRAMS. Thank you very much, Senator.

Senator Smith, did you have an opening statement that you would like to make?

Senator SMITH. Just, Mr. Chairman, congratulations on your chairmanship.

Senator GRAMS. Thank you.

Senator SMITH. I look forward to serving on your committee, and I welcome the witnesses.

Senator GRAMS. Thank you very much. Senator Robb.

Senator ROBB. Thank you, Mr. Chairman.

I am not a member of the subcommittee, but as a member of the full committee, I recognize the importance of the jurisdiction that this committee has, particularly at this important period. Your statement and Senator Feinstein's statement reflect the gravity of the kinds of choices that we are going to have to make. Although I will not be able to remain for the full hearing, I wanted to at least hear part of the presentation that our principal witness is going to make today, because we are all going to have to grapple with the ultimate conclusions of the subcommittee.

I thank you.

Senator GRAMS. I thank you for being here. Thank you very much.

Mr. Kennedy, I would like to open it up for you to have your opening statement. I would just request you try to keep it to about 10 minutes, and a reminder that your full statement will be entered into the record as if read.

STATEMENT OF PATRICK F. KENNEDY, ACTING UNDER SECRETARY FOR MANAGEMENT, U.S. DEPARTMENT OF STATE

Mr. KENNEDY. Thank you very much, Mr. Chairman. I am pleased to appear before the committee today, and I definitely appreciate your opening remarks about the need for appropriate diplomatic readiness.

The Senate Foreign Relations Committee has a long history of assisting the State Department in its efforts to advance the foreign policy interests of the American people. Your efforts have been invaluable in the past, and I am seeking it again today as I testify in support of the Department of State's fiscal year 1998 budget request for those accounts which fund State Department operations.

At your request, I will not read my entire statement today. I appreciate your entering the full statement in the record, and I will then summarize the major points.

Secretary Albright spoke eloquently before this committee during her confirmation hearings about the foreign policy requirements that underpin this budget request. She outlined the principal foreign policy challenges before us today, and pointed to the challenges that lie ahead of us in what remains of the century.

In order to meet these challenges, there is a real need for diplomatic readiness — maintaining, or in many cases restoring, the human and material infrastructure that allows the Secretary and others, whether they work for the State Department or other Agencies of the U.S. Government, to advance the national policy agenda overseas.

This is not an easy burden. To support and advance American interests around the world, the State Department maintains some 250 diplomatic and consular posts in 164 countries. These platforms are the home bases not only for the Department of State, but also for more than 200 other U.S. Government entities that help support and advance American interests.

The operation of these platforms clearly supports the Department's request for the amount specified in the President's budget, both for our own operations as well as for those we carry out as a provider of support services to all Agencies with an overseas presence.

In order to help improve our ability to manage such a worldwide operation, and ensure that every tax dollar is wisely utilized, the Department has made significant progress on a number of important management issues. I will speak about them later in my presentation.

Finally, we are making increasingly greater use of strategic planning — in compliance with the Government Performance and Results Act — to ensure that we allocate our scarce resources to the highest priorities. Let me begin by highlighting the major elements of our budget request.

We need to fund mandatory pay raises — and overseas as well as domestic inflation. We must continue to improve our information technology infrastructure. Our budget request seeks $40 million additional for funding in this area. We need additional funding for other initiatives as well — hosting important international conferences, upgrading our entire infrastructure in China, and complying with legislated arms control mandates.

We must continue to support an aggressive Border Security Program, particularly by upgrading consular systems, employing new technologies, and adequately funding worldwide consular operations. We must maintain our overseas inventory of facilities to promote operational efficiency, employee health and safety, and an extended useful life for our buildings.

In her confirmation hearings before this committee, Secretary Albright noted that American leadership in the world derives from having the full range of foreign policy tools, including military force and vigorous diplomacy. We need to approach diplomacy with the same commitment that has made our Armed Forces what Secretary Albright referred to as the best-led, best-trained, best-equipped, and most respected in the world.

Diplomatic readiness is the basic foundation of a vigorous, constant, creative, and effective diplomacy. There are three principal components of diplomatic readiness:

The first is human resources. We need a work force that reflects the vigor and diversity of the Nation it represents. We also need the right number of skilled employees — with foreign language, functional, and technical expertise — who are well prepared to represent the varied interests of the United States overseas, build effective relationships with their international counterparts, exercise foreign policy leadership, protect American citizens, and provide operational support for the conduct of foreign affairs.

The second is information. We need highly qualified personnel and the information technology capability to gather, analyze, and communicate information efficiently.

Infrastructure and Operations is the third component. We need well maintained office and overseas residential facilities, supported by efficient administrative, financial, logistical, and security systems, which enable employees to conduct business properly at home and abroad.

Diplomatic readiness helps achieve real foreign policy goals. For example, how can we maintain constructive relations with the great powers without the right people with the right skills in our most important diplomatic missions?

How can we advance the Nation's economic and commercial interests abroad without properly trained and equipped personnel in the right places to help break down trade barriers, support U.S. business, and negotiate mutually beneficial investment and tax agreements?

How can we effectively promote consular services to American citizens traveling and living abroad if we successively reduce budgets that cause us to close more overseas posts or reduce staffing at the posts that we are able to keep open?

There has been a cumulative, negative impact on our diplomatic readiness produced in recent years by the flat budgets the Depart-

ment has had since 1993. Information systems have, as you have noted, fallen behind in technology, interconnectivity, and reliability. Buildings, as Senator Feinstein has noted, require substantial renovation.

For well over a decade, we have not been able to maintain realistic replacement cycles for critical equipment that support overseas operations, such as computers, telephone systems, vehicles, and office and residential equipment. Staffing gaps, even at key embassies, are now the rule, rather than the exception.

Language training, arguably the most important training done at the National Foreign Affairs Training Center, has been cut back. Other training has been reduced even further. Without adequate security resources, the risks to our personnel, facilities, and information will soon exceed what is prudent.

The Department has recently undertaken a number of management initiatives, which are designed to make the optimal use of the human and material resources that you provide us. The first is called ICASS, the International Cooperative Administrative Support Services system, which is a new way to manage and fund administrative support for all U.S. Government Agencies operating abroad. ICASS will fund and provide detailed information for senior managers so that for the first time they will have information on the full costs of overseas support, with the objective of obtaining quality services at the lowest possible cost.

At the mission level, these costs will be distributed equitably and transparently under the guidance of a local ICASS council, composed of representatives of all U.S. Government Agencies.

Logistics Re-engineering: The Department's logistics re-engineering project is redesigning worldwide logistics support operations. Work will be organized around the total logistics process to provide materiel and services faster, better and cheaper. We hope to achieve greater efficiency in operations, move work from complex and expensive channels to simpler and more economical processes, and reduce inventory carrying costs, as well as transportation and internal processing costs.

Our Overseas Staffing Model calculates staffing requirements for overseas posts based on their workload — consular and administrative staffing — or derivatively as a function of the post's global, regional, and bilateral foreign policy priorities, primarily political and economic staffing.

Based on the relational assessment of the post staffing requirements worldwide, the model provides Department management with an analytical tool for allocating personnel resources consistent with foreign policy objectives and priorities, adjusting staffing levels proportionately to deal with any funding level for personnel, and determining staffing levels for any new posts. This staffing model will be revalidated on a regular basis.

Border Security: The Department has an ambitious border security program that includes deploying advanced technology to all consular posts within 3 years. State and other agencies are actively sharing data to enhance the U.S. Government's ability to screen out terrorists, narco-traffickers, and other criminals.

Every visa-issuing post now has a sophisticated, automated name-checking system to help prevent the issuance of visas to peo-

ple who should not receive them. Every post now also utilizes the Machine Readable Visa System, which offers numerous security features to help strengthen border security.

In recent years, the infrastructure deficit has had a dramatic impact on many elements of the Department's information handling systems, as has been noted. For example, over 40 percent of the Department's overseas telephone switch gear is obsolete, 82 percent of all our radio equipment overseas is obsolete, and 55 percent of our overseas computer equipment is also obsolete.

Like all organizations in the public and private sector, the Department must also accelerate planning for and implementation of measures to solve the year 2000 dilemma, as the chair has noted.

A key strategy that we will actively pursue beginning in fiscal year 1998 is the retention of revenues generated by all fees. In the past, we have retained only those fees for the Machine Readable Visas and for expedited passport processing. In fiscal year 1998, we expect to retain the fees sufficient to: Support the delivery of high-quality standardized consular services that the American citizens expect from their Government, implement an effective immigration policy, improve the Nation's border security, and contribute to the delivery of other critical services.

The Department is responsible for the acquisition, operation, and maintenance of some 12,000 office, residential, and other properties abroad, which support some 200 U.S. Government entities at over 250 posts. The Real Estate Asset Management Program disposes of unneeded properties and uses the proceeds to meet higher priority real property needs. This program generated $59 million in the past two fiscal years, and with these funds and other appropriated balances, new facilities were purchased which now save the U.S. Government over $12 million every year in avoided lease costs.

Diplomatic Security: The most important security issue that we face now is the need to combat the threat of terrorism worldwide, particularly in the Middle East. To meet this threat, the Counterterrorism Budget Amendment provided an additional $38 million in no-year funding for the Department, of which $23.7 million will be used for improving and emphasizing security upgrades.

While producing an immediate response on the terrorist threat, the Bureau of Diplomatic Security must also develop a longer-term strategy for a more stable budget level to address security requirements worldwide. We rigorously apply a risk management strategy to the implementation of our security standards at all overseas posts. We calibrate the established generic standards and countermeasures to meet specific posts, specific threats, and specific times. This technique avoids the waste inherent in using a one-size-fits-all approach to meeting security standards, and allows the Department to husband scarce security resources.

The Department has also expanded its outreach to the U.S. business community overseas through the Overseas Security Advisory Council, which helps protect life and facilities through information-sharing activities, involving over 1,500 American businesses having overseas operations.

The State Department has also actively engaged in a strategic management process that includes meeting the requirements of the Government Performance and Results Act. Under the leadership of

an advisory group of nine assistant secretaries, strategic planning teams are developing an overarching International Affairs Strategic Plan, covering all U.S. Government activities abroad and, based upon that plan, a Department of State Strategic Plan.

Once reviewed by senior leadership, the plans will be the subject of consultations with our stake holders and customers, including other Agencies, OMB, and the Congress, in the coming months.

Finally, the Department already requires overseas missions and bureaus in Washington to prepare annual performance plans, which will now be derivative of the Department's strategic plan.

In conclusion, Mr. Chairman, when Secretary Albright testified on the President's budget request before the House International Relations Committee, she observed that there will be many occasions, in many places, where we will rely on diplomacy to protect our interests, and we will expect our diplomats to defend those interests with skill, knowledge, and spine. But she also noted that we cannot have world-class diplomacy on the cheap. We must invest the resources required for American leadership.

Mr. Chairman, that last sentence is the essence of my message today. To carry out a reasonable, forward-looking U.S. foreign policy — one that advances the national interest everywhere in the world — requires the level of diplomatic readiness that the President's fiscal year 1998 budget request supports. Give us the tools we need, and together we will do the job — and do it well.

Thank you very much.

[The prepared statement of Mr. Kennedy follows:]

PREPARED STATEMENT OF MR. KENNEDY

Introductory Remarks

I am delighted to be here to testify in support of the Department of State's FY 1998 budget request for those accounts which fund Departmental operations. The opportunity to appear before you today is extremely important; the effort to secure the funding that will allow American diplomacy to do its job is one in which I believe and to which I am fully committed.

Secretary Albright has already spoken eloquently before this Committee, and on other occasions in other fora, about the substantive foreign policy requirements that underpin this budget request. She has outlined the principal foreign policy challenges before us today, and pointed to the challenges that lie ahead of us in what remains of the century and beyond. In order to meet these challenges, there is a need for "diplomatic readiness" — maintaining, or in many cases restoring, the human and material infrastructure that allows the Secretary and others, whether they work for the State Department or other agencies of the US Government, to advance the national policy agenda overseas.

This is not an easy burden. To support and advance American interests around the world, the Department of State maintains some 250 diplomatic and consular posts in 164 countries. These "platforms" are the home bases for not only the Department of State but also for more than 200 other US Government entities who help support and advance American interests. These platforms involve operating in 150 different foreign currencies, developing local compensation plans for every country where we have diplomatic and consular posts, maintaining 12,000 buildings, and supporting 23,000 State Department employees — American and foreign nationals, overseas and here at home — and another 20,000 employees of other US Government agencies overseas. Our telecommunications facilities handle over 4 million telegrams per year, our Passport Agency issues over 6 million passports annually, our overseas posts issue over 8 million visas each year, and our consular officers overseas annually respond to over 2 million requests for American citizen services.

The operation of these platforms clearly supports the Department's request for the amount specified in the President's budget, both for our own operations as well as for those we carry out in our role as a provider of support services to all agencies with an overseas presence. In order to help improve our ability to manage such a

world-wide operation, and insure that every tax dollar is wisely utilized, the Department has made significant progress on a number of management initiatives that deserve both your attention and your continuing support. I will speak about them later in my presentation.

Finally, we are making increasingly greater use of strategic planning — in compliance with the Government Performance and Results Act of 1993 — to insure that we allocate our scarce resources to the highest priorities. We are doing this at the broad, international affairs level, and at the overall Department level and within our organization at the bureau and program levels. However, strategic planning — while focusing resources on high-priority goals — does not allow us to fund all of the foreign policy objectives that make up our national security agenda.

Budget Summary Comments

Let me begin by highlighting the major elements of our budget request, before I discuss the programs and activities that contribute to "diplomatic readiness" and the management initiatives which we are implementing to manage our resources more effectively.

1. We need to fund mandatory pay raises and overseas as well as domestic inflation.
2. We must continue to improve our information technology infrastructure — installing telecommunications systems, local area networks, personal computers, and software; modernizing our corporate information systems. Our budget request seeks $40 million additional funding in this area.
3. We need additional funding for other initiatives as well — hosting the International Telecommunications Union Plenipotentiary Conference and an international environmental cooperation conference, upgrading our entire infrastructure in China, and complying with legislated arms export control mandates.
4. We must continue to support an aggressive Border Security Program, particularly by upgrading consular systems, employing new technologies, and adequately funding worldwide consular operations.
5. We must maintain our overseas inventory of facilities to promote operational efficiency, employee health and safety, and an extended useful life for our buildings. We will continue to use the proceeds of sales to make cost-effective real property purchases where there is both a demonstrated need and documented cost benefits.

Diplomatic Readiness

Secretary Albright, in the statement submitted to this Committee for her confirmation hearing last month, noted that American leadership in the world derives from having the full range of foreign policy tools, including military force and vigorous diplomacy. The Secretary also cited the direct contribution to sustained American leadership over the past half-century made by a constant and creative diplomacy. Noting that one of her principal tasks will be to work with the Congress to ensure that we have the diplomatic representation that our people deserve and our interests demand, she pointed out that "first-class diplomacy" requires a serious investment of resources.

We need to approach diplomacy with the same commitment that has made our Armed Forces what Secretary Albright referred to as the "...best-led, best-trained, best-equipped, and most respected in the world." Diplomatic readiness is the human and material infrastructure that allows us to advance our national policy agenda overseas. It is the basic foundation of a vigorous, constant, creative, and effective diplomacy. Diplomacy can prevent many crises, but it must also be poised to devote its resources to those crises which cannot be prevented.

There are three principal components of diplomatic readiness:

1. Human Resources: We need a workforce that reflects the vigor and diversity of the nation it represents. We also need the right number of skilled employees — with foreign language, functional, and technical expertise — who are well prepared to represent the varied interests of the United States overseas, build effective relationships with their international counterparts, exercise foreign policy leadership in embassies abroad and in Washington, protect American citizens, and provide operational support for the conduct of foreign affairs
2. Information: We need highly qualified personnel and the information technology capability to gather, analyze, and communicate information efficiently.
3. Infrastructure and Operations: We need well maintained office and overseas residential facilities, supported by efficient administrative, financial, logistical, and security systems which enable employees to conduct business properly at home and abroad.

But "diplomatic readiness" is also much more than words like **human resources, infrastructure,** and **information** normally evoke. "Diplomatic readiness" has a much more direct link to achieving real foreign policy goals than is apparent from those words. For example:

- How can we maintain constructive relations with great powers if we do not have the right people with the right skills present in our most important diplomatic missions? Think of Russia, and the critically important transformation it is currently undergoing. And reflect on how important it is for our future that we have good information about and good communications with our former global adversary.
- How can we advance the nation's economic and commercial interests abroad without properly trained and equipped people in the right places at the right time to help break down trade barriers, support US business efforts in foreign markets, and negotiate mutually beneficial investment and tax agreements with foreign governments?
- How could we have made meaningful contributions to preventing the spread of weapons of mass destruction and promoting peaceful solutions to regional conflict if we had not been able to establish and staff properly embassies in the new countries that emerged from the collapse of world Communism?
- And how can we effectively provide consular services to American citizens traveling or living abroad if successively reduced budgets cause us to close more overseas posts or reduce staffing at the posts we are able to keep open?

"Diplomatic readiness" is sustained, primarily but not exclusively, by the **Administration of Foreign Affairs** title of our appropriations. The increase above the estimated FY 1997 level we are requesting — just under $60 million — is a genuinely modest increment when you consider the return in terms of advancing our national interests that this investment can achieve. And it appears even more modest if one considers the cumulative, negative effects on our "diplomatic readiness" produced in recent years by the flat budgets the Department has had since 1993.

Let me review some of those negative effects.

- Information systems have fallen behind in technology, interconnectivity, and reliability.
- Buildings require substantial renovation.
- For well over a decade, we have not been able to maintain realistic replacement cycles for critical equipment that supports overseas operations like computers, telephone systems, vehicles, and office and residential equipment. And the situation gets worse every year.
- Staffing gaps, even at key embassies, are now the rule, not the exception.
- Language training, arguably the most important training done at the National Foreign Affairs Training Center, has been cut back. Other training — the professional development, area studies, and functional/technical courses — has been reduced even further.
- We must continue to address a security infrastructure gap. Without adequate resources, the risks to our personnel, facilities, and information will soon exceed what is prudent.

Management Initiatives

The Department has undertaken a number of management initiatives over the past year which I would like to review for you today. They are all worthy of your attention, and are designed to help us make optimal use of the human and material resources you provide us.

ICASS

The International Cooperative Administrative Support Services (ICASS) system is a new way to manage and fund administrative support for all US Government agencies operating at diplomatic missions abroad. ICASS is a customer-driven system that depends upon the active involvement of all users. It will also capture direct and indirect costs.

Additionally, under ICASS, several categories of overseas costs previously paid by the Department from its own base funding (such as building operating expenses for government-owned and long-term leased properties, and non-residential local guards), — which total about $100 million — will be shared by all users.

ICASS will provide senior managers for the first time with information on the full costs of overseas support, with the objective of obtaining quality services at the lowest possible cost. At the mission level, these costs will be distributed eq-

uitably and transparently under the guidance of a local ICASS council composed of representatives of all US Government agencies.

The financial underpinning of ICASS is the Department's Working Capital Fund (WCF). Using the WCF will capture various costs that comprise overseas administration and make reimbursement more transparent and more equitable than under the old process. During FY 1997, the Department is operating under "virtual" ICASS, i.e., using ICASS methodology and the WCF, although still billing other agencies under the old reimbursement process (FAAS). In FY 1998, ICASS will go "live." The Administration will be submitting a budget amendment shortly to reflect those shared administrative costs that will now be borne by other agencies. We ask your support for that amendment.

Logistics Re-engineering

Antiquated and costly logistics operations have historically impaired overall performance and reduced diplomatic readiness for all US Government agencies operating overseas. Additionally, funds for replacement systems and equipment have been reduced over recent years, thus increasing maintenance costs and rendering most operations significantly less efficient.

The Department's logistics re-engineering project is redesigning worldwide logistics support operations. Work will be organized around the total logistics process to provide materiel and services better, faster, and cheaper. Implementation of this project has begun, and it is expected to take approximately two years. Affecting about 600 employees in different organizations, 200 of whom are contractors, the establishment of the new logistics management organization will be started following a reprogramming notification to the Congress.

We anticipate savings will accrue from greater efficiency in operations, and from the movement of work from complex and expensive channels to simpler and more economical processes. Other savings will come from reduced inventory carrying costs, transportation and internal processing costs, and from less dependence on contractors. Also, replacing about 30 old computer applications with just a handful of new ones will avoid the cost of upgrading and conversion, and reduce out year maintenance and operating expenses. More efficient service delivery and increased satisfaction on the part of internal customers are also principal goals of this re-engineering effort.

Overseas Staffing Model (OSM)

After an intensive development project, we have produced the Overseas Staffing Model (OSM). The OSM calculates staffing requirements for overseas posts based on workload — either as objective data (consular and administrative staffing) or derivatively as a function of the post's global, regional, and bilateral foreign policy priorities (primarily political and economic staffing). Based on the relational assessment of post staffing requirements worldwide, the Model provides Department management with an analytical tool for: (1) allocating personnel resources consistent with foreign policy objectives and priorities; (2) adjusting staffing levels proportionately to deal with any funding level for personnel; and (3) determining appropriate staffing levels for new posts.

The OSM, which will be revalidated on a regular basis, provides staffing guidelines not rigid templates to be applied universally. There will always be special circumstances produced by shifting policy priorities, the way in which diplomatic relations are or must be conducted in certain countries, and the ability to get work done in certain environments. We have begun the validation process for the staffing levels proposed by the OSM. We asked overseas diplomatic missions to evaluate in this year's Mission Program Plan submission how they would carry out their responsibilities under the Model's proposed staffing levels.

The Overseas Staffing Board (OSB) will review these findings later this spring, and make whatever adjustments to post categories are required. The OSB is expected to meet twice a year to provide the Under Secretary for Management with recommendations for staffing changes

Border Security

The Department has an ambitious border security program that includes deploying advanced technology to all consular posts within three years. State and other agencies are actively sharing data to enhance the US Government's ability to screen out terrorists, narco-traffickers, and other criminals. For example, the Department — in cooperation with the Immigration and Naturalization

Service (INS) — is developing a prototype system to capture fingerprint information on non-immigrants from high-crime areas.

Every visa-issuing post now has a sophisticated, automated name-checking system to help prevent visa issuance to persons whose presence in the US would constitute either a security concern or be contrary to our immigration law. Every post now also utilizes the Machine Readable Visa (MRV) system, which offers numerous security features which strengthen US border security.

The Department's Bureau of Diplomatic Security (DS) has frilly trained law enforcement agents in many US embassies abroad, and works closely with our domestic passport agencies to investigate the whole range of passport and visa offenses. DS agents have doubled their number of passport and visa fraud related arrests from 256 in 1992 to 567 last year.

Since 1994, the Department has been authorized to collect and retain fees from the issuance of MRVs for consular operations and to enhance border security activities. Projected FY 1997 collections in MRV fees, which also help fund investments in information management and communications networks, total $137 million.

Information Technology

In recent years, the infrastructure deficit has had a dramatic impact on many elements of the Department's information handling systems. For example: About 40% of overseas telephone switch gear is obsolete; 82% of all radio equipment overseas is obsolete; and 55% of overseas computer equipment is obsolete.

The Department has submitted its Strategic Plan for Information Resource Management, as well as an associated tactical plan, to the Congress. As part of the strategic planning process, the Department has created a cost model for needed improvements to meet the infrastructure and communications needs by the year 2001. Although the Department has not yet initiated a formal Workforce study, our initial review already indicates significant weaknesses in both total staffing and skill levels needed to meet existing and expanded responsibilities by the year 2001.

Like all organizations in the public and private sector, the Department must accelerate planning for and implement measures to "solve" the problems posed by the Year 2000 dilemma — the fact that almost all current software and some hardware recognize only two digits in a date, and thus will register the year 2000 as 1900. This alone is expected to cost $135.2 million. To the extent that the Department will be required to reprogram funds to cover such costs, such reprogramming could divert resources that would otherwise go towards modernizing our antiquated information technology capabilities.

Fee Retention

A key budget strategy that we will actively pursue beginning in FY 1998 is the retention of revenues generated by all fees. In the past, we have retained only fees for Machine Readable Visas (MRVs) and for expedited passport processing. In FY 1998 we expect to retain fees sufficient to:

1. support the delivery of standardized, high-quality consular services that American citizens expect from their government;
2. implement an effective US immigration policy;
3. improve the nation's border security; and
4. contribute to the delivery of other critical services.

In the long run, we expect to see gains in operational efficiency and improvements in the way we manage our resources. A user-charge system will enable us to gauge public demand for services and to shift our resources to meet these needs. The schedule of fees for consular services is also being revised, with an eye toward updating the services provided overseas. Services originally established in the days of sailing ships are being streamlined and modernized.

Asset Management

The Department is responsible for the acquisition, operation, and maintenance of over 12,000 office, residential, and other properties abroad which support some 200 US Government entities at over 250 embassies, consulates, and other posts abroad. The Department continually reviews its real property inventory to determine which properties are no longer needed, which are too big or too small, which are too expensive to maintain, and which need improvements. The

real estate asset management program disposes of unneeded properties and uses the proceeds to meet higher priority real property needs.

This program generated $59 million in the last two fiscal years, and with these funds and other appropriation balances new facilities were purchased which are now saving over $12 million annually in avoided lease costs — a saving which will recur every year. Keeping leasehold costs under control is critical to preserving funding for even a modest maintenance and rehabilitation program, which is critical to the protection of life and property, and to preserving the value of our real estate.

Diplomatic Security

The most important current security issue is the need to combat the threat of terrorism worldwide, especially in the Middle East. To meet this threat, the Counterterrorism Budget Amendment provided an additional $38 million in no-year funding for the Department, of which $23.7 million will be used for improvements emphasizing security upgrades (both physical and technical security) and the deployment of additional security personnel to the Middle East region.

While producing an immediate response on the terrorist threat, the Bureau of Diplomatic Security (DS) must also develop a longer term strategy for a more stable budget level to address the full scope of security requirements worldwide. After five years of security infrastructure erosion, DS will begin to address its highest needs both in terms of national security information as well as personnel security. DS is also working with other elements of the Department to develop cost-sharing procedures for overseas security and for domestic criminal investigations, using fees generated by the Machine Readable Visa program to fund operational and systems support for the "border security" initiative.

DS has rigorously applied a risk management strategy to the implementation of its security standards at all overseas posts. We calibrate the established generic security standards and counter-measures to meet specific threats at specific posts at specific times. This technique avoids the waste inherent in using a "one-size-fits-all" approach to meeting security standards and allows the Department to husband scarce security resources.

DS has also expanded its outreach to the US business community overseas through the Overseas Security Advisory Council (OSAC). Begun in 1994, OSAC has focused its efforts on the protection of life and facilities, and accomplishes this through various information-sharing activities involving over 1,500 American businesses having overseas operations. In recent years OSAC has also begun to focus on the protection of information with the increase in international industrial espionage.

Strategic Planning

The Department's is actively making progress in strategic management, including meeting the requirements of the Government Performance and Results Act (GPRA) of 1993. Under the leadership of an Advisory Group of nine Assistant Secretaries, a Strategic Planning Team is developing an overarching International Affairs Strategic Plan covering all US Government activities abroad and, based on that plan, a Department of State Strategic Plan. Once reviewed by senior leadership, the plans will be the subject of consultations with our "stake holders and customers" (including other agencies, OMB, and the Congress) in the coming months.

Critical to our success is the development of meaningful performance indicators, by which we can track our progress in achieving goals and objectives. This task has been relatively easy in the management area (such as consular operations, administration, and diplomatic security). Policy areas in the political and economic fields have proven to be more difficult.

Finally, the Department already requires overseas missions, and bureaus in Washington, to prepare annual performance plans which will now be derivative of the Department's strategic plan. The process in place now involves the development of Mission Program Plans (MPPs) in the fall and Bureau Program Plans (BPPs) in the spring. Efforts are underway to streamline the process and to frilly integrate planning and other aspects of resource management.

Conclusion

Secretary Albright testified earlier this month before the House International Relations Committee to support the President's budget request for foreign policy re-

sources. In addressing the variety of perils that have replaced the single, overriding threat of the Cold War era, she observed that "there will be many occasions, in many places, where we will rely on diplomacy to protect our interests, and we will expect our diplomats to defend those interests with skill, knowledge, and spine." But she also noted that "...we cannot have world-class diplomacy of the cheap. We must invest the resources required for American leadership."

Mr. Chairman, that last sentence is the essence of my appeal to you today. To carry out a reasonable, forward looking US foreign policy — one which advances the national interest everywhere in the world — requires the level of "diplomatic readiness" that the President's FY 1998 budget request supports. Give us the tools we need, and we will do the job and do it well.

Senator GRAMS. Thank you very much, Mr. Kennedy.

We have been joined by Senator Biden. I would like to open it up for an opening statement if you would like to.

Senator BIDEN. I will be very brief. Thank you, Mr. Chairman. I would ask unanimous consent that my entire statement be placed in the record as if read.

Senator GRAMS. Without objection.

Senator BIDEN. And I will just make two very brief points. One, I agree with Mr. Kennedy and Secretary Albright that it seems to me that the total number being requested is, from my view, a minimum number. I do not know how we can do less. Clearly, we can find savings. The committee has to work to eliminate wasteful or duplicate spending.

But even if we were able to find considerable savings, assuming we agreed — which we obviously would not, because you have submitted your best budget to us — there are places where we should be spending more money. There are places we should be spending more money that I suspect you would like to have the money to spend, but you have not put it in your budget because you are realistic about what you think you can get.

But, for example, if we find any savings — and this is what one of the functions of this committee is — I would not seek to use those savings to reduce the overall budget of the Department, but instead shift some of the resources. For example, the Department seeks $40 million to improve its information technology.

Translated into non-State Department speak, that means telephones, that means computers, that means this State Department of ours is operating in a way, in terms of your technology base, like some companies were in 1980 or in 1978 in some case places. You need these kinds of upgrades. You need them badly. You need more than you have asked for, in my opinion.

A second point I would make, and then I will cease, Mr. Chairman, is that I would also, if we were able to find these savings here, I would caution my colleagues to look at whether or not we should really reduce the total number that some are talking about reducing. Because I would also redeploy some resources to ensure a much more robust diplomatic presence in Russia and the New Independent States, where our interests are in ensuring the success of the transformation from communism to democracy, from planned economies to market economies.

This is a big, big deal. We are going to be judged, in my view, all of us, not just this committee, but everyone in Government — my kids, who are just starting their careers, when their children are writing their graduate theses about the development of American foreign policy in the 20th century, they are going to look at

this period and say we either hit a home run or we struck out. I mean this is a big deal.

This is one of those rare instances in American diplomatic history where we are going to set the stage for what happens for the next 25 years. We do not get to do that very often. Usually, all we get to do is bend the curve a little bit, bend the curve of history slightly. Here we may be able to change the trajectory. We may not, but we have a chance, like we did in 1946, 1947, and 1948.

So I think that redeployment of some of these assets are also something we should be considering. So, I am thankful that the administration and the witnesses are here to move, and the interest of the chairman and committee in this. But, again, I hope we are not looking at this in terms of — we cannot afford — I have heard the mantra — we cannot afford to cut defense anymore, and I have shared that view. We cannot afford to cut the international budget anymore. We cannot afford to do it.

At any rate, I thank you, Mr. Chairman, and thank you for allowing me to enter a more full statement in the record.

[The prepared statement of Senator Biden follows:]

PREPARED STATEMENT OF SENATOR BIDEN

Mr. Chairman, today the committee begins a review of the budget of the Department of State.

Of course, this review does not begin in a vacuum. We are all aware that a larger question looms: Whether to reorganize our foreign affairs infrastructure.

As I stated yesterday, I have an open mind about the question of reorganization. The stalemate of the last two years — the result, in large part, of the paralysis of the election cycle — need not continue.

But everyone should understand that willingness to consider reorganization does not equate with a willingness to further reduce our budget for international affairs.

Rather, the President's request of $19.5 billion for international affairs should be regarded as the bare minimum needed to assure that we can protect our interests around the globe.

By any measure, spending on international affairs has dropped dramatically in the last several years. The $18.3 billion allocated to international affairs in fiscal 1997, if adjusted for inflation, is 25 percent less than the average over the previous twenty years, and nearly one-third below the spending levels of a decade ago.

As a bipartisan, blue ribbon panel recently stated: "The cuts already made in international affairs [spending] have adversely affected, to a significant degree, the ability of the United States to protect and promote its economic, diplomatic and strategic agendas abroad. Unless this trend is reversed, American vital interests will be jeopardized."

It is commonly asserted that Americans have grown weary of international involvement and will not support adequate spending for international affairs. It is said that they are tempted by a so called "Neo-isolationism."

I believe this view underestimates the American people. The slogan "America first" no doubt holds appeal. But as most Americans understand, we could not hide from the world if we tried.

Instead, they understand that, even with the cold war over, our international responsibilities have not diminished. We face new security challenges in Europe and Asia, new narcotics threats in Latin America, and new proliferation challenges around the world — to name just a few issues on the agenda.

We cannot meet these responsibilities without adequate resources. In that regard, I am today sending a letter to the Senate Budget Committee in which I urge that the committee consider the President's budget request for foreign affairs — the so called "Function 150 account" — as a floor for international affairs spending.

Anything less should be regarded as a retreat from international engagement.

To be sure, the committee must seek to eliminate wasteful or duplicative spending. We should be rigorous in our oversight role — in searching to reduce funding in areas that are no longer needed.

But once we find those savings, I would not seek to reduce the overall budget for the Department — but instead seek to shift those resources to areas of higher priority.

For example, the Department seeks a $40 million increase to improve its information technology — its computers and phones. This program is essential for the Department to carry out it basic mission.

I would also redeploy resources to ensure that we have a robust diplomatic presence in Russia and the new independent states — where our interests in ensuring the success of the transition from communism to Democratic capitalism are of critical importance.

Mr. Chairman, I look forward to working with you and the Chairman of the Full Committee as we move forward in this process in the coming weeks.

Senator GRAMS. Thank you very much, Senator.

Beginning on the questioning, Mr. Kennedy, as I said in my opening statement — by the way, I think we will set a time of about 8 minutes in these rounds of questioning, which will give the Senators time, and time for you to respond adequately and not try to hurry it along, but to give a little bit of an opportunity. So, we will set the timer at 8 minutes, if that would be fine.

Mr. Kennedy, again as I said in my opening statement, the subcommittee will not be engaging you today on the specifics of a State Department reorganization plan. However, I did want to mention that this issue did come up yesterday in Senator Hagel's subcommittee hearing on the budget for the Agency for International Development. My understanding is that, at that hearing, again, the distinguished ranking member of the Foreign Relations Committee, Senator Biden, made it very clear that he had an open mind on this issue. I want to express my appreciation to the Senator for his comments yesterday and to let him know as well that I want to work with him to craft a State Department reorganization plan which the committee as a whole can support.

In that regard, Mr. Kennedy, let me just ask you if it is your understanding that the administration is developing a reorganization plan for the State Department and related foreign affairs agencies as well?

Mr. KENNEDY. Mr. Chairman, as Secretary Albright testified before this committee during her confirmation hearing, everyone at the State Department believes that it is very important to us to have an effective and efficient means to implement U.S. foreign policy. She and everyone have an open mind on this issue, and we look forward to continuing this dialog, because we do approach it with an open mind.

Senator GRAMS. Can you tell us approximately maybe when this plan would be ready to come forward to this committee?

Mr. KENNEDY. The Secretary is personally addressing this Mr. Chairman.

Senator GRAMS. But no timetable or — —

Senator FEINSTEIN. Is personally — I am sorry, is personally what?

Mr. KENNEDY. The Secretary has said she has an open mind on this and, as she indicated to this committee, she has an open mind on the subject.

Senator BIDEN. Mr. Chairman, that is State Department-speak for he has no idea, and the Secretary has not begun to look at it yet.

Senator GRAMS. I will make a note of that. I am learning the dialog.

Senator BIDEN. But I promise you she will.

Senator GRAMS. If I could just bring up one other housekeeping issue this morning, Mr. Kennedy. I have talked to Chairman Helms, and both of us have agreed that we want to move expeditiously to mark up the State Department authorization bill. Now, given that it is almost March, can you tell me how soon the State Department will be able to send us its legislative language for the basic authorizing or authorities that it is requesting for our fiscal year 1998?

Mr. KENNEDY. We are currently and actively working on our legislative package that would authorize not only the President's budget request, but update a number of State Department administrative procedures along the lines of good Government. I have every reason to believe and we hope that we are going to be able to submit this to you fairly soon.

Senator GRAMS. Well, it would be for the committee's advantage and also for everyone else involved that it would be helpful if we could have the legislation from the State Department maybe by as early as next week. Would that be in the realm of possibilities?

Mr. KENNEDY. It is in the realm of possibility. We want to work with this committee and other key committees to make sure that we have the resources and the legislative authorities necessary to implement U.S. foreign policy in absolutely the best way possibility.

Senator GRAMS. We appreciate the cooperation.

The State Department's budget request includes a $40-million increase in the capital investment fund, as Senator Biden mentioned, for the modernization of information technology infrastructure. Again, we can go back to phones and computers, and I know how they can be outdated. I bought a computer in 1990; in 1994 it was outdated. Everything had surpassed it as far as technology.

In addition, you have sent Congress an extremely detailed tactical plan, describing the Department's ongoing investment in information resources management. I believe this is the binder of the plan that is involved with that?

Mr. KENNEDY. Yes, sir.

Senator GRAMS. It is currently estimated to cost $2.7 billion over 5 years. Could you describe for the subcommittee the nature of the crisis in information technology infrastructure that the State Department is facing?

Mr. KENNEDY. Certainly. As I mentioned earlier, 40 percent of our telephone switchboards overseas are now obsolete; 80 percent of the radio equipment we use, both for emergency purposes and for management purposes abroad, is obsolete; and 55 percent of the computer equipment at our posts abroad is obsolete. We arrived at this point because, over the last decade, the State Department's budget has declined in real purchasing power by about 17 percent. I am talking about now the State Department operating accounts for which I am responsible.

Over the last 5 years, the State Department's budget has been flat. During the last 5 years, we have also opened some score of new embassies in the former Soviet Union, in the Baltics, in the

Balkans, and in South Asia. In order to open those new posts, which are very important for the implementation of U.S. foreign policy, the control of narcotics, the control of the spread of arms, to protect American citizens, to promote American business, to get the funds necessary to open those new posts with a static budget, we have essentially diverted funds from our replacement cycle, from our capital investment accounts—to open and establish those new posts, to obtain facilities for them, to buy them computer equipment, telephones, and to pay the salaries of the personnel at those installations. Many of those installations are exceedingly more expensive to operate in a relative sense because of their remote locations in Third and Fourth Worlds.

So, over the past 5 years, the equipment replacement cycles that we should have been maintaining, especially in the information technology arena, have been essentially thrown out, and we have lived off the assets we now have. We have kept our current stock of computer equipment, our current stock of telephones, our current stock of radios, and simply used the funds that we should have used to replace that equipment to open these new posts. Now, we have reached the end of our rope.

The equipment is literally dying. We have the year 2000 problem that you have referred to, and therefore we need to move ahead. The $2.7 billion figure that is used in the tactical plan is for all costs, including the operation, the maintenance, the equipment replacement, the training, the applications. We currently spend now about $420 million a year on all the personnel costs that are related to information technology and information management on ongoing operations, on the important circuitry that links our far-flung network to Washington. But what we do not have is the replacement cycle.

Senator GRAMS. What are the major initiatives or priorities that the State Department is proposing in the IRM plan to address what would be the most severe technology needs, especially those facing the immediate deadlines as you just mentioned—again, the 2000 problem?

Mr. KENNEDY. We have put together what is essentially an eight-point package, and let me just quickly run through that. First of all, to make sure we spend the money wisely, we need a coordinated standards and planning operation. We are implementing that through the aegis of the newly established chief information officer. On the year 2000 problem, we were given a grade of "B" by a recent Government Operations Committee, which I am not happy with; I much would prefer an "A," but I will settle for the "B" because I think it shows a significant degree of progress.

Senator GRAMS. You did pretty good. Some got an "F."

Mr. KENNEDY. I understand that.

One of the few advantages of having such antiquated equipment is that with the technology program we are putting into place, we can throw out all the old equipment, and we do not need to spend any money replacing that equipment. We have an infrastructure program that will put into effect the network that needs to be done. The $40 million will help bring the equipment to the desk top. We have an applications and software development group that is work-

ing to integrate the new equipment and the year 2000 issue and the far-flung network.

We are going to spend just the minimum amount necessary on our legacy equipment, just to carry that limping forward until we get the new equipment in place. We have a training schedule in place for our human resources. Last, we have a configuration management committee that makes sure that everything we do fits together seamlessly, so that there is no waste.

Senator GRAMS. And just to follow up quickly—I know my time is up, but what steps have you done to make sure that the new equipment that you buy and the technology you install will not become so obsolete so readily? Or how do you maintain the cutting edge, so to speak, of that technology? So what steps are you taking and how are we going to be assured that we do not invest today in something that is obsolete by the year 2000?

Mr. KENNEDY. The combination of our chief information officer and our deputy assistant secretary for information management in the Bureau of Administration have formed a committee which has oversight from senior Department-level personnel. They are the ones what have put together the strategic plan and the tactical plan that has been submitted to the Congress.

This plan builds in a 4-year replacement cycle, which is the current industry standard. That is part of the funding we seek. So, that everything does become obsolete, but it is not going to become obsolete faster than is rational and faster than industry standards would dictate. That is part of the strategic and tactical plan that is before you.

We do not necessarily need to be cutting edge on everything. We just simply need to have a plan, which we believe we have submitted, that is rational and realistic.

Senator GRAMS. And that it does the job?

Mr. KENNEDY. And that it does the job, yes.

Senator GRAMS. Very good. All right. Thank you very much, Mr. Kennedy.

Senator Feinstein.

Senator FEINSTEIN. Thank you very much, Mr. Chairman.

Mr. Kennedy, I am just trying to understand some of this in the facility rehabilitation. You have a total request of $48.3 million. That represents a $4.7 million increase. You are selling property. You hope to get, of those sales, as I understand it, $108 million from what is called major unbudgeted facility requirements. Is that a correct reading?

Mr. KENNEDY. We have split our efforts into two parts. We are seeking appropriated funds, as we have outlined in our budget, in order to carry a 5-year program. The General Accounting Office has identified some $250 million in deferred maintenance that must be caught up on. So, we are requesting facilities maintenance money on a 5-year schedule, in order to repair and rehabilitate our existing facilities. We know, in some locations, that we need new facilities.

Senator FEINSTEIN. But I think you are missing my point. These are unbudgeted facility—are these sales of things the Department would sell?

Mr. KENNEDY. That is the second part of our program.

Senator FEINSTEIN. That is what I am interested in.

Mr. KENNEDY. Yes.

Senator FEINSTEIN. What are they?

Mr. KENNEDY. OK. There are a number of locations where we know we do not have adequate facilities now. It is not that we can rehabilitate what we have; we simply do not have enough facilities. Examples might be Berlin. The German Government, by the year 2000 or 2002, is going to shift their capital of Germany from Bonn to Berlin. The Government of Nigeria is planning on moving their capital from Lagos to Abuja. We have never had an adequate embassy. We are now literally operating out of trailers in Luanda, Angola. So, we have these unbudgeted requirements. There is no capital program money submitted here.

China, which you referred to earlier in your opening remarks, is another example where we have facilities that need to be rehabilitated. But even after we rehabilitate them, they will not be adequate. So, the State Department, under what we call our asset management program, has identified U.S. Government facilities around the world which we believe we can make excess to our needs. We will put those facilities on the market, generate proceeds of sale, and under the Foreign Buildings Act, we have the authority to receive those funds back into the Foreign Buildings Act, and then we will turn around and build or buy new facilities in other locations in order to meet the second part of the infrastructure deficit.

Senator FEINSTEIN. All right. I understand what you are doing. I am looking at the committee staff analysis here. It is listed. I guess I am not understanding it. It has listed $14 million in housing and office space in Bangkok and China; $30 million in new diplomatic facilities in Abidjan, Kampala; and $10 million in asset management initiatives in India; 18 million in relocation of diplomatic facilities from Bonn to Berlin and Frankfurt; then $108 million in major unbudgeted facility requirements. That is what is puzzling me.

Mr. KENNEDY. All right. Those are facilities such as new facilities in Guanzhou.

Senator FEINSTEIN. But are not these things you are selling?

Mr. KENNEDY. No.

Senator FEINSTEIN. Oh, all right. I thought these were——

Mr. KENNEDY. These are our needs.

Senator FEINSTEIN. OK.

Mr. KENNEDY. These are new facilities, new office buildings, new support structures, new housing that we do not have, and I do not have room within——

Senator FEINSTEIN. Is that Guanzhou?

Mr. KENNEDY. Guanzhou.

Senator FEINSTEIN. OK.

Mr. KENNEDY. Guanzhou.

Senator FEINSTEIN. Canton, in other words?

Mr. KENNEDY. Canton.

Senator FEINSTEIN. Right.

Mr. KENNEDY. Those are new facilities that we need. I have nothing there to rehabilitate, so it is additive. But since I do not have room in my budget to request new capital money, I will sell

other State Department facilities in other locations and take that money and apply it to the building or the purchase in these unbudgeted areas.

Senator FEINSTEIN. OK. All right. I think I understand now, and I thank you for that.

It is also my understanding that a large part of the funds needed to upgrade the embassy facilities in Beijing are dependent on the sale of the old embassy building in Bangkok. I gather that building has been sitting for some time, looking for a buyer. Is this going to take a year or 2 years?

I am very impressed with the China 2000 Plan that Ambassador Sasser has prepared. I would like to see it move ahead. I believe it is necessary and that our embassy in Beijing can be a much bigger help to America than it is today if it just has some adequacy.

How long is it going to take, and will its sale hold up the remodeling of the embassy in Beijing or its replacement?

Mr. KENNEDY. The answer, Senator Feinstein, it unfortunately is. The work in Beijing is dependent upon the sale of our properties in Bangkok or elsewhere in the world. One of the compounds in Bangkok which formerly housed part of our embassy is on the market right now. We thought we had a buyer for it, and that buyer was the high bidder in an auction process we ran. That buyer has now defaulted on the contract, and we have now remarketed the project. But we are actively engaged in this effort.

Since I have no money for capital programs, and as you rightly note, we have desperate needs in Beijing, I have the maximum incentive on me every day to move those properties in Bangkok or elsewhere in the world. In fact, we are trying to market three properties in Bangkok as we speak. I am doing everything I can with my colleagues every day to move those to sale at the right price so I can put that money into China as fast as I can.

Senator FEINSTEIN. Let me ask you, do your auction procedures say that if the high bidder defaults you go to the next bid, or do you have to re-bid the whole thing?

Mr. KENNEDY. We can go to the second bidder if there was a second bidder who has bid a reasonable amount of money.

Senator FEINSTEIN. Was there in this case?

Mr. KENNEDY. There was not a second bidder in Bangkok that bid anywhere close to the appraised value.

Senator FEINSTEIN. So the answer, really, bottom line, to the question is, nobody knows how long it will be?

Mr. KENNEDY. That is correct, but——

Senator FEINSTEIN. That is unfortunate.

Mr. KENNEDY. But we intend to move ahead as expeditiously as we can. I will be meeting with Ambassador Sasser next week. This is literally our highest priority.

Senator FEINSTEIN. Thank you.

Mr. Chairman, I have a number of questions. Could I submit my questions to you and perhaps they could be submitted to the Department for their response?

Senator GRAMS. Sure. You could take a couple of extra minutes, too, if you would like, before we move on.

Mr. KENNEDY. Senator, may I add one thing?

Senator FEINSTEIN. Certainly.

Mr. KENNEDY. While we are working on the building issues, which is certainly a major issue, we have already funded a new telephone system for Bangkok. We diverted other funds to that. The installation will begin shortly. The installation is taking place——

Senator FEINSTEIN. You said Bangkok, did you mean——

Mr. KENNEDY. I am sorry, Beijing.

Senator FEINSTEIN. Right.

Mr. KENNEDY. My apology. Beijing. Right now, as we are meeting, the new computer equipment, the desktop computer equipment for our personnel in Beijing, is now being installed by a State Department team. So, while we are seeking the large capital sums that a building requires, we, at the same time, are moving ahead on those smaller components that we can immediately get our hands on.

Senator FEINSTEIN. May I ask one more question?

Senator GRAMS. Sure.

Senator FEINSTEIN. I realize this is an open hearing, but I was wondering if you could provide us with any informational detail about the measures that are being taken by State to protect itself and its information against unauthorized access to its computer system or the decipherment of encrypted messages containing classified information? Are there additional security measures incorporated in this budget request?

Mr. KENNEDY. We have interleaved the protection of national security information into every single aspect of our information technology program. The State Department rigorously adheres to the standards promulgated by the National Security Agency. So, everything we do in the information technology field, in the transmission of information, and in the handling of that information adheres to the national security standard procedures.

That is part of our plan here. The $260 million of the $2.7 billion, which is part of the strategic and tactical plan for our 5-year program, is an information security portion.

Senator FEINSTEIN. And this is a very high priority to me.

Mr. KENNEDY. It is.

Senator FEINSTEIN. Do you feel you have adequate resources to be able to move vigorously, on a high-priority basis, to do what has to be done?

Mr. KENNEDY. If the President's budget is passed, the answer to that question is yes.

Senator FEINSTEIN. Thank you.

Thank you very much, Mr. Chairman.

Senator GRAMS. Also, Senator Feinstein, if there is a need or if the opportunity arises, we could maybe have plans to, maybe in a closed hearing, go into more detail on the security aspects and any questions that we might want to add to that. So, we are going to leave that as an open possibility, again, if the opportunity or needs arise, where we can get this information.

Senator FEINSTEIN. All right. I am glad you share that interest, Mr. Chairman, because I think today our Ambassadors are more in physical jeopardy, as are the facilities and the embassy staff. We all recall what happened in Pakistan and other areas. I really think we need to beef up our security.

Mr. KENNEDY. I could not agree with that more. Security, both physical and technical, is literally one of our highest priorities.

Senator FEINSTEIN. Thank you.

Thank you, Mr. Chairman.

Senator GRAMS. Thank you, Senator. We will submit the rest of your questions in writing, and hope that we can get these back within a week. I know we will have others that will want to submit questions in writing as well. We will probably follow up with some other questions in detail.

Mr. KENNEDY. Certainly, Mr. Chairman.

Senator GRAMS. Again, trying to work together and as quickly as possible, if we could get you to respond within a week, we would very much appreciate it.

Mr. KENNEDY. We will certainly do that, Mr. Chairman.

Senator GRAMS. Thank you very much.

I would like to follow up on some of the questions that the Senator had dealing with real estate. Of course the most important thing is always location, location, location. Bangkok probably is not the most prime location right now. But, as you know, the General Accounting Office released a report on overseas real estate, which I have a copy of here, in April of last year. This report concluded that the State Department holds numerous excess properties that could generate, according to this report, about $467 million in revenue if sold—excess real estate.

Given that the State Department's Budget-in-Brief, states that expected revenues from property sales for fiscal year 1997 and fiscal year 1998 will total $316 million, can I safely assume that you agree with the GAO report? And since your current plans would still bring you up $152 million short compared to the GAO estimate, what efforts have been made to plan additional property sales?

Mr. KENNEDY. We agree with the principle that the GAO elucidated, which is our principle, which is to have a rigorous professional asset management program which identifies any excess U.S. Government diplomatic properties overseas, and immediately moves to sell those properties in order to generate the revenue needed to make the capital investments in properties we have talked about. We do not agree, however, with every single one of the properties that the General Accounting Office has identified for sale.

There are some of the properties that they identified—and one, for example, they said we should sell a piece of property which was alongside one of our embassies. We informed the GAO that that vacant land—in their mind—was actually part of the security setback of our embassy, so that we could have an adequate set-off against the potential for truck bombs. We do not believe that we should sell that property and endanger our personnel.

They identified in their study other properties which they attached a value to based upon something that is called highest and best value. They just assume that there were no local zoning restrictions, no host country restrictions on the sale of properties, and that we could sell it to any bidder and generate the highest amount of money. That is not always the case. Just as the State Department and the Office of Foreign Missions rigorously enforces zoning

rules in Washington and in surrounding areas so an embassy cannot do anything it wants, we have those same restrictions on us overseas.

In one city, for example, the GAO suggested that we sell a property and we could make tens of millions of dollars because the builder would build a high-rise building on it. So, we said fine. We went and talked to the local government official who said, wait a minute now, that area is zoned for residential properties; we would not permit you to build a high-rise.

So while we agree with the GAO and we are seeking, as is noted in our budget submission, to get every single possible dollar—because I am incentivized to do that—I do not agree with every single one of the examples they use.

Senator GRAMS. But agreeing or not, there are plans to look at getting rid of additional excess property?

Mr. KENNEDY. Yes, Mr. Chairman. We have a committee that we are forming, composed of senior State Department officials who have no vested interest in the regional areas and three experts from outside the State Department, but who are other U.S. Government real estate experts, to sit down and review these issues, to make sure that we have the best possible advice.

Senator GRAMS. Given the fact that in 1996, fiscal year 1996, you had $18 million in sales, is it realistic to assume that there could be $180 million in fiscal year 1997?

Mr. KENNEDY. Sales are lumpy, Mr. Chairman. For example, we are already less than two quarters into this fiscal year and we have already sold $32 million worth of property already this fiscal year. We are only 5 months into it. We market properties as soon as they become available.

For example, we have just finished constructing a new compound in Singapore. We have some very, very valuable property in the center of downtown Singapore that we will be able to put on the market. That property was not available last year, because we were moving into the new embassy. That property is being marketed right now.

So as these properties come available, because of new construction or whatever, we immediately move to marketing them. So, I believe it is possible, although, with the vagaries of the real estate market, there is no guarantee that something we plan for fiscal year 1998 would not appear in the first quarter of fiscal year 1999.

Senator GRAMS. I would ask you to detail the sales that are going to yield this estimated $180 million this year and the actions taken so far, but maybe I would ask you to do that in writing rather than going through them piece by piece. But if you could give us a report on what are some of the immediate plans and maybe detail what the properties are and the expected prices, that would be helpful.

Mr. KENNEDY. We would be pleased to do that, sir.

[The following material was subsequently supplied for the hearing record by Mr. Kennedy.]

ASSET MANAGEMENT: FY 1997 PROJECTED SALES

The $180 million figure projected in the Security and Maintenance of US Missions FY 1998 Budget document is based on the total dollar amount to be realized if all properties projected for sale in FY 1997 are in fact sold and if sales take place at or near estimated values.

To date, 15 sales have been completed and approximately $38.5 million in sale proceeds will be realized. In addition, offers have been accepted for another 19 properties, but sales have yet to be completed. The dollar value of these latter transactions is approximately $69.3 million.

The ability to realize the full $180 million is dependent on multiple factors, many of which are beyond the Department's control. Changes in local real estate market conditions, delayed receipt of host government approval for sale and/or USG tax exempt status, unexpected financial difficulties encountered by purchasers, political upheavals and/or catastrophic events, unanticipated legal issues requiring resolution, and the like, frequently intervene and disrupt a sale time line.

The Department intends to use FY 1997 proceeds of sale for residential housing acquisition to buy down the lease hold account, and to acquire new office and other diplomatic facilities.

Senator GRAMS. The April 1996 GAO report also determined that there was no systematic process for identifying and selling State Department excess property. In the report it recommended that the Secretary of State create an independent panel to make recommendations. Now, I do not know if this is what you were just referring to, of putting this panel together for the sale of excess property and the reducing of the current inventory. It also recommended that the Secretary require foreign building operations, FBO, to report annually to the Under Secretary for Management on all properties identified as excess.

Again, is this what you were talking about in updating this committee?

Mr. KENNEDY. Yes, it is, Mr. Chairman. We have established the panel. I did disagree, in my discussions with the GAO, on the use of the words "systematic process." I believe that we do have a systematic process in place now. Every post files an annual report of their property holdings. The Office of Foreign Buildings regularly dispatches personnel to review all of these property holdings onsite. So, while I believe we have a systematic process, we also went ahead and established this independent panel. Because I believe that anything that contributes to my ability to generate revenues to meet my unmet needs is something worth doing.

Senator GRAMS. There have been a lot of statements from administration officials about, quote, dire conditions of many of the State Department's facilities overseas. We have heard that one Ambassador had to wash dishes in one of the embassy's bathtubs, that there are heating systems that do not work, and that some of the oldest buildings are literally falling apart.

Would you give the subcommittee a picture of the overall state of U.S. facilities overseas and where the buildings in the worst shape are located, and again, how you are targeting your plans and priorities?

Mr. KENNEDY. Certainly, Mr. Chairman.

Every building has a life cycle. The average life cycle, if you use the engineering standards that are published, says a building has a life cycle of about 40 years. At the end of 40 years, you must replace the electrical systems, replace the heating, venting and air conditioning systems, replace the roofs.

The General Accounting Office, using figures that they have generated plus figures from the Office of Foreign Buildings, estimated that there is about a $250 million shortfall in deferred maintenance of buildings abroad. We use that data to identify the facilities that have the greatest need, and then we target the rehabilita-

tion money, the $46 million to $48 million, that we have put into our budget, for the rehabilitation of properties. We target those to the greatest need.

When you have a program where the average age of our owned properties is 38 years, we are at that life cycle point. So, using what we call the Global Maintenance Surveys, every post, in conjunction with the professional people from the Office of Foreign Buildings that we dispatch periodically, go out and we survey these buildings, and we survey the major life systems in each one of those buildings. We identify the worst cases, and then we target the fund to meet the facilities that need the most up-to-date work.

Senator GRAMS. Can you describe the trend in funding levels for the account covering security and maintenance of U.S. missions in recent years? Has that account been cut dramatically?

Mr. KENNEDY. The account has been——

Senator GRAMS. Not only cut, but I know you said you have transferred some funds for other Agencies. But I mean the account itself, has it been cut dramatically?

Mr. KENNEDY. For example, in fiscal year 1996, which is two fiscal years ago, we had $386 million in the account. In fiscal year 1997, the current year, it is $364 million. So, that was a cut of almost $25 million. Two years ago, about $50 million of balances were rescinded by the Congress. For this fiscal year, we are trying to work the appropriations request back up. For fiscal year 1997, it is about $364 million; for fiscal year 1998, it is $373 million.

If you go back, say, 5 years, it was a lot higher. It was $560 million in fiscal year 1993. It dropped to $400 million in fiscal year 1994, $410 million in fiscal year 1995, to $385 million in fiscal year 1996, and then $389 million in fiscal year 1997, which included some supplemental funding. So, there has been a downward progression. We basically have not requested funds because of the need to balance the budget and make comparative tradeoffs.

We have requested no capital money, no money for major rehabilitations, or no money for new construction. So, we have cut that off the top, and we are requesting this bare-bones budget for basically maintenance and rehabilitation.

Senator GRAMS. You mentioned there was $50 million rescinded by Congress. Has there been any other requests from the State Department for which it has not received funding from Congress?

Mr. KENNEDY. The question, for example, in fiscal year 1997, our request was $400 million, and the enacted level was about $389 million this year. So, that was $11 million less in enacted.

Senator GRAMS. We will submit a lot of these details for you in writing, and then hopefully get back a lot of the number-crunching sort of aspects.

Mr. KENNEDY. We would be pleased to, yes, sir.

Senator GRAMS. On diplomatic security, one of the most important responsibilities, as I think Senator Feinstein was pointing out in her final question, is to provide thorough oversight for the Department's efforts to ensure that all U.S. diplomatic personnel are operating in a very safe and secure environment. Certainly the recent deadly attacks on our military personnel in Saudi Arabia have only gone on to magnify the concerns of all members of the Foreign Relations Committee.

Are you confident—I am going to ask this again—that the system that the State Department uses to assess the level of security, the security threat to U.S. personnel in each country, is providing an accurate picture of the security needs? And maybe elaborate on why you have those feelings.

Mr. KENNEDY. Certainly, Mr. Chairman.

We run a very, very extensive and rigorous threat assessment. We divide the threat assessment question up in essentially three groups. We assess the criminal threat against our personnel, we assess the technical threats, and then we assess the terrorist threats. To each one of those levels we assign four gradations—low, medium, high, and critical threat levels. This is an interagency process.

We draw information from the State Department's professional regional security officers, assigned at a large number of our missions overseas, and there is a regional security officer who has jurisdiction responsibility for each mission. We marry that up with our political analysis, and then, with an extensive interagency process to draw on the threat information from every possible Agency of the U.S. Government. Then we assign those threat levels.

Once we have assigned a threat level for a post, we then tailor our deployment of resources to meet those threat levels. If you have a critical threat post, we certainly deploy significantly more resources than we do at a low-threat post. We analyze some 30,000 security incident reports a year on behalf of the Diplomatic Security Service, to see what the threat potential is, and then we tailor it that amount.

The Congress has been generous to us in the last 2 years in providing supplemental funding which we have specifically devoted to that security threat. We have increased the number of local guards. We have increased the hiring and the deployment of Diplomatic Security agents. We have bought new armored cars, and we have begun to replace security equipment—metal detectors, cameras, motion detectors, ultrasonic detectors—that are very, very much a part of our security package and our security profile.

Built into the President's budget request is what we call annualization, bringing the funds along for fiscal year 1998, so that the equipment and the personnel that that supplemental made available to us, we can continue that, to meet those needs in the out years. Therefore, on the basis of the President's budget request, I think, with those fundings, we can feel that we have met the threat levels.

On the other hand, as you well know, Mr. Chairman, incidents can occur tragically around the world in places where our threat level was low, where there was no information derived from any U.S. Government Agency that would have suspected an incident in that location. So, we engage in rigorous risk management, and putting the resources against the posts which are most threatened. But an individual threat can pop up almost anywhere.

Senator GRAMS. But right now you feel comfortable that fiscal year 1998 requests provide the resources to meet adequately the needs forsecurity?

Mr. KENNEDY. Yes, Mr. Chairman, I do.

Senator GRAMS. Could you also detail all the sources of funding in the State Department's budget that contribute to the security of overseas personnel? And I ask as well for any funding from other budgets, such as the Marine security guards, which is now being funded by the Department of Defense. Are there any other outside budgets or sources that are combining to add to the security budget?

Mr. KENNEDY. In addition to our basic operating account that provides for personnel, security officers and equipment overseas, that is one source. The Office of Foreign Buildings account, when they construct and maintain buildings, builds in security features into those buildings. The Defense Department has assumed the burden of paying for Marine security guards. However, it should be noted, whether the DOD assumed that burden, that same amount of money, $24 million, was reduced from the State Department's budget. So, there was no plus-up. This was essentially a transfer of responsibility.

Also, the local guard forces that we deploy around facilities overseas, both office and residential, we do receive some reimbursements from other Government Agencies. For example, if another Government Agency other than the State Department is the exclusive occupier of an embassy annex, that Government Agency will reimburse the State Department for the cost of the local guards who patrol the perimeter of that facility.

I would be glad to go into certain other matters in a closed session or briefly, after this, if you wish, sir.

Senator GRAMS. I was just going to bring that up again. I would appreciate your cooperation if, again, the need or opportunity arises, to come and meet with this subcommittee in a closed session, again, so we could discuss some of the specifics of the security and the needs.

Mr. KENNEDY. Certainly, I am available at your call.

Senator GRAMS. And also, Mr. Kennedy, I have a final message on this issue and I would appreciate you taking it back to the State Department. That is, if there is ever a point in the future when you feel Congress needs to do more to help protect the diplomats overseas, that again I hope you do not hesitate to call me directly. I feel confident that if you ever found the need to be there, that you would get a receptive response from me and any other members of this committee. So, again, to leave that door open. Because security has got to be first and foremost, of course.

Mr. KENNEDY. Mr. Chairman, I know where your door is. I promise to find you.

Senator GRAMS. Thank you. The President's budget proposes—I am going to be talking about user fees. In his budget proposal, it includes a government wide proposal to place greater reliance now on user fees rather than direct appropriations. The State Department's fiscal year 1998 request includes an indefinite appropriation of $595 million from such fees. What authorities will the administration be requesting to implement this user fee program?

Mr. KENNEDY. We will be seeking authorizing and appropriations language that would permit the State Department to retain fees that we currently collect for the provision of services. Our belief is that if we are able to tailor the work we do to certain fees that we

receive, we will be able to be more responsive to the public and engage in a more rigorous and rational process.

For example, over the last 5 years, the number of passports that we have issued annually to American citizens has increased by 60 percent; the number of visas that we have issued to foreigners to visit the United States is up by 12 percent; and immigrant visas are up as well. When you have this increasing demand for certain services—we also have increasing demand for authentication services in the United States, increasing demand from American businesses, under the Defense Trade Control Act, for licenses and processing—this constant growth in demand for these specified types of services, we are simply unable to keep pace with those for appropriated funds.

If we have the ability to collect the fees that are related to the provision of those services, we feel we are going to be able to then increase the personnel, the equipment and the facilities to match those. Therefore fee retention will allow us to provide the American public, American business, the foreign traveling public which wishes to visit the United States, either for business or tourism, we will be better able to serve those multiple constituencies by taking those fees and turning them around and applying them to the resources necessary to deliver those services.

Senator GRAMS. If Congress does not give you the authority, is the administration going to request additional moneys in authorization?

Mr. KENNEDY. If we do not——

Senator GRAMS. Or direct appropriations?

Mr. KENNEDY. We would have to come back to you to request additional direct appropriations, or we would have to simply cease doing other activities and shift those funds to keep pace with this workload. It is a Hobson's choice that I do not relish making. But that is why we are convinced that since the fee proposals we have laid before you are derivative of services that are directly provided to some elements of the public, but yet not the entire public—not every person requests a passport—why not take those passport revenues and apply them to getting that requester his or her passport, and, in effect, not tax the American public as a whole to provide that passport service?

So that direct relationship between the fee and the passport, the fee and the visa, the fee and some other service, we believe is a good government proposal that we are very, very confident is in the best interest of everyone, including and specifically the American taxpayer.

Mr. GREENE. Mr. Chairman, I might add to that.

Senator GRAMS. Sure.

Mr. GREENE. We have had lots of internal discussions about this proposal, and we cannot afford for this proposal to fail. We have got 25 percent of our worldwide operating budget at play here. For all the reasons that Under Secretary Kennedy laid out, we hope it gets passed. It makes a lot of good sense. But the ramifications for it not getting passed are huge for us.

Senator GRAMS. How so if the other appropriations—if there was direct appropriations to replace that, would that still have the negative effects that you are talking about?

Mr. GREENE. It would not be as bad as what I am talking about, but some of the reasons why we want to do this—the ability to capture the cost of inflation and constantly investing in these systems would be lost.

Senator GRAMS. How does the State Department's fee proposal fit into the government wide proposal for greater reliance on user fees?

Mr. KENNEDY. It is one of, I believe, a dozen proposals that the administration is making to the Congress, that includes, I think, 11 other Agencies.

Senator GRAMS. Now, Mr. Greene, you just mentioned something about inflation and other things, but what are the parameters for setting the fees on passports and visas and immigration? And the question is, will these parameters be included in the administration's requested authorization?

Mr. KENNEDY. Mr. Chairman, under OMB Circular A–25, there is a rigorous procedure in place that does not permit any Government Agency to collect a fee that exceeds the cost of providing the service. That is part of our proposal, that we will continue to adhere to OMB Circular A–25. To ensure and give confidence to you and the American public that we are not cooking the books on the fees, we turn to an outside entity—Mitre Tech could be an example, the Mitre Corporation—to conduct a fee study to make sure that the fee-for-service figure that is set, what is called the cost of service, is specifically related to the actual cost of providing that service.

Senator GRAMS. So you could assure us, then, that the cost associated with these services could not be increased in the future, so that it could not only fund the passports, visas, et cetera, but be used to go on and support other expanding programs or new programs?

Mr. KENNEDY. The fees are related to the cost of providing the service. But what we need to do is ensure that those fees cover what we call the fully loaded cost of providing that service, including the utilities of the building. I mean obviously there is the cost of the passport book and the person who processes it, but then there is the other costs that are in there. Now, those are built into the fee proposal and would be part of the fee package as well—what is known as fully loaded costs, the actual and true cost to the American people of providing that full service.

Senator GRAMS. OK. Moving on to another topic. This is very relevant to my home State of Minnesota, and Minneapolis. The International Telecommunications Union, which helps further global cooperation on telecommunications, is going to be holding its 1998 conference in my home State of Minnesota. The city of Minneapolis, of course, is going to be very delighted to be hosting this important conference, which is held only once every 4 years.

Now, the State Department's Budget-in-Brief, mentions that the U.S. Government is trying to seek ways to let the private sector help reduce the expected costs or the estimated costs of the conference to the U.S. taxpayer. Now, I know that many companies in Minnesota and from across the country have shown substantial interest in the ITU conference, so could you elaborate on these cost-

share plans and whether they are reflected or not in this budget request?

Mr. KENNEDY. Mr. Chairman, we believe that the host-ship costs of holding the quadrennial ITU, as you noted, will be approximately $14 million. The proposal by the administration is that that cost be evenly divided, $7 million from the Department of State and $7 million from the Department of Commerce. It has been suggested that the administration enter into discussions, which we have been entering into, with various business and aspects of the private sector, to see if they would wish to bear some portion of that cost.

The private sector is already bearing a large number of those costs. I mean, thanks to the goodwill of the people of Minnesota, the conference site itself in Minneapolis is being made available at no cost. A large number of the transportation and other hospitality aspects of the conference are already being borne by the private sector. There is a parallel trade exposition that will take place and run concurrently with the conference itself. That entire cost is being borne by the private sector.

We are and will continue to speak with representatives of the private sector in any and all opportunities. However, to date, while they have been very, very generous in making some sums available, the private sector also believes that there are certain inherently governmental aspects of the conference which should be borne by the host nation—in this case, the United States—and which is why we are seeking $7 million, and my colleagues at the Department of Commerce are also seeking $7 million, in order that the inherently governmental host-ship aspects will be borne by the United States.

Senator GRAMS. These shared costs among public and private is going well. Would this be used as a model for future conferences, the experiences that you——

Mr. KENNEDY. We actively seek private sector participation in any and all conferences which are of the nature of something like the International Telecommunications Union, which has a very, very high private sector interest. There are certain other conferences, such as arms control conferences, which would have no true private sector interest.

But yes, the State Department has the authority to receive gifts, and we use that authority and actively seek the private sector's assistance and cooperation. We did that for the Summit of the Americas, which took place several years ago in Miami. The U.S., in Denver, Colorado, this year, will be host of the G–7 economic summit, and we are seeking private sector contributions to that as well.

Senator GRAMS. I want to move on to another subject that you mentioned in your opening statement, and that was ICASS. As you know, the administration plans to fully implement the International Cooperative Administrative Support Services program in fiscal year 1998, a new system for cost-sharing among Federal Agencies. ICASS will provide for cost-sharing by Agencies operating overseas, relative to their total overseas presence. Can you detail or give us more information on how that program is going to operate?

Mr. KENNEDY. Certainly, Mr. Chairman.

Two years ago, at the initiative partially of the Congress, partially of the State Department, and partially of the Vice President's National Performance Review, the State Department asked and the President's Management Council convened, an interagency group to look at the support model overseas. The State Department currently has about 30 percent of the U.S. Government personnel overseas and is paying approximately 70 percent of the cost. So, in effect, we are subsidizing other Agency presence overseas.

This is a significant burden on the Department of State, on the order of at least $100 million.

The other Agencies were not very pleased with the level of service they were receiving, because in these tight budget times, the State Department constricted, they felt they were not receiving adequate support. Other Agencies felt that they needed to expand their overseas presence—law enforcement is a good example. The State Department could not take on the additional burden of carrying another 70 percent of an increased cost.

So this interagency working group engaged in an extensive study and came up with the ICASS model. The ICASS model is essentially a transparent, equitable way of allocating the full cost of doing business overseas. A local council, composed of all Agencies of the post, sits down and negotiates levels of service and who is the provider of that service—the State Department, maybe the Agency for International Development in some other post, maybe the United States Information Agency has surplus printing capacity in that country and so it would do all the printing.

We have identified some two dozen factors—motor pool maintenance, communications—an Agency will take responsibility, and in most cases, it will be the State Department—for providing those identified services, and will work out a level of service that the Agencies want, and then develop a cost of service. That will then be divided up, and each Agency will then pay its fair share for the actual services it consumes.

Senator GRAMS. Is there a particular Agency that will have ultimate authority over activities funded by ICASS?

Mr. KENNEDY. The State Department is the coordinating organization for ICASS. We have a small staff that share in the ICASS Service Center, the interagency group that will provide the coordinating mechanism and provide the rules and regulations. But it is truly an interagency group, with participation from every U.S. Government Agency abroad.

Senator GRAMS. Any estimates on savings? I know you want to provide the better service, but sometimes you can provide better service and at less cost. Are you accomplishing both or do you think you are achieving both goals, and what is the estimate on the savings?

Mr. KENNEDY. I do not—I regret I do not have a cost savings estimate yet, but I believe I will. It is for this reason. Right now no Agency really knows what its cost of doing business overseas is. There is no aggregation of that figure. Once we get ICASS into place, once Agencies all of a sudden have to pay their full cost of doing business, we are going to be incentivizing everyone to look for the absolutely lowest-cost means of providing a minimally adequate level of service.

We are going to be fully implementing ICASS this October 1. I believe that, within a year or two, we will see savings. Because this incentivization of seeking the lowest adequate service provider will be something that is very new, very radical, and very necessary.

Senator GRAMS. But the initial stage of it, you feel confident or pleased?

Mr. KENNEDY. Yes, sir. Yes, Mr. Chairman. We have had—this fiscal year, we have been doing what is called virtual ICASS. We have established the working groups at every posts. We have set service standards. We have continued to fund the entire operation out of the State Department's operating account. But 5 months into this fiscal year, we are seeing greater cooperation, greater teamwork, and a greater incentivization to look for the best and the lowest-cost way of doing business.

We have provided the other Agencies with mock bills for this fiscal year, telling them what they would have had to pay under the system and actually what they will have to pay come October 1, and therefore the incentives are flowing.

Senator GRAMS. OK. Next year, we will come back and follow up on this and see how this year has gone.

Mr. KENNEDY. I look forward to it.

Senator GRAMS. Mr. Kennedy, the fiscal year 1998 budget request lists a conference on international environmental cooperation as a high-priority foreign policy initiative. Now, already the United States is participating in numerous environmental organizations, including the United Nations Global Climate Change Convention, which will be having a major conference, by the way, in 1998 in Japan.

In addition, last year's omnibus appropriation bill placed a moratorium on U.S. participation in global conferences. Now, given the level of resources already devoted to high-level international environmental meetings and congressional calls to limit global conferences, how does the administration justify this particular budget request?

Mr. KENNEDY. Mr. Chairman, there are a number of new emerging issues that have come to the fore since the end of the cold war—narcotics, human rights, and the environment are three, just to name a few. Environmental issues have an impact on the American citizenry.

Bad air and bad water can have a deleterious impact on the United States, as well as on any other country in the world. We believe that Secretary Christopher made the correct decision when he identified this as one of his priorities. That $1.7 million is truly a significant sum of money in the State Department's constrained budget environment. However, given the importance of these issues, we need to find solutions to environmental problems before they begin to lap over our shores or blow through our atmosphere.

We believe that it is important for the State Department to address these issues, as the practitioner of international diplomacy, and to get countries together to address these issues before they have a deleterious effect on us. The $1.7 million then represents an important initiative, in our minds, to protect the American public through our diplomatic outreach.

Senator GRAMS. Some of the concern is, with already all the resources going there, to add on another $1.7 million—I know it is an important area, but when you put it in the list of priorities, and especially, again, going back to a congressional call to limit global conferences, that this $1.7 million could be spent better maybe elsewhere—communications, capital improvements, security, et cetera. That is the question that we have. It is not like we are not spending money already in these areas that concern us, but to really up the ante, so to speak, at the expense of other programs.

Mr. KENNEDY. I agree, Mr. Chairman, that we have to make sure that we rigorously apply any expenditure, but this kind of environmental conference would literally be the first one of its kind. We have other conferences that have addressed pieces of the puzzle. But when you look at the environment, the pieces of the puzzle come together and present a very, very specific picture. In order to protect life, property, and the health of the American people, we believe that the U.S., as the global leader, ought to take this first step, ought to take this initiative in the environmental area as well, in effect, in a case of enlightened self-interest.

Senator GRAMS. Moving on to another topic—and I have a few more questions here that I would like to get through yet—but, again, the November 1996 GAO report found that the present cable writing and review process—this is talking about what is considered the antiquated cable system that we have—and the review process for cable writing may be too cumbersome, especially given the widespread use of electronic mail and the possibilities of the Defense Messaging System for transmitting classified communications. In addition, the report found that the need for face-to-face diplomatic meetings might be reduced by using other communication methods, again, such as video conferencing. What efforts are being made to readapt these systems and achieve savings, given the modernization of State Department technology and infrastructure?

Mr. KENNEDY. We have been working very, very closely with the Department of Defense, ever since they announced their Defense Messaging System initiative. I have personally met with Lieutenant General Al Edmonds, who is the head of the Defense Information Systems Agency, to make sure that our respective teams are fully interrelated. We are working with DMS. We are following this.

We have spoken to DOD, and they have assured us, for example, that under the contracts that DOD is letting, there is a significant portion of each one of those contracts that may be ridden by other national security Agencies to ensure that we can buy compatible equipment and take advantage of the research and development that they have been engaged in. So, we are monitoring DMS. We will have a system that is fully compatible and uses DMS-like pieces.

At the same time, we realize that while we are using electronic mail extensively—and one of the easiest measures of that is, up until several years ago, the average number of cables that the State Department would send out every year, formal messages, was in the range of, I think, about 325,000—the number in the last 2 years has dropped below 300,000, because more and more admin-

istrative and other business can be done effectively and more cheaply through the electronic mail means—at the same time, we also need to see that we still have a formal message traffic potential of communicating to an ambassador an official set of instructions, so that he or she knows exactly what they want to do. So, we want to retain that.

That is a feature of the Defense Message System and its State Department parallel as well. But we are not going to stint on electronic mail. Our estimates, and it is hard to count electronic mail, but using the traffic figures, we believe that we are generating at least 40 million electronic e-mail messages every year. So, we are following this.

We are also testing video conferencing. The Diplomatic Telecommunications Service pilot test that was recently completed tested video teleconferencing with both one post in Europe and one post in the Far East, to find out what are the technologies and what are the best ways to do it.

My only concern about video conferencing, which we intend to rigorously pursue, is that there is no industry-wide standard yet for video conferencing, and we do not want to get too far ahead of the leading edge and buy a technology that is not going to become the industry standard. So, we are pursuing that, but we want to make sure that we do not get ahead of the curve.

Senator GRAMS. How much do you use private industry consultants in knowing what is available, what to purchase, when, how to integrate it? Rather than inside sources, are you using also private-sector sources?

Mr. KENNEDY. We use outside consultants extensively. We want to take advantage of the outside expertise. There is no reason for an Agency that is as small as the State Department to ever reinvent the wheel. It is simply too expensive to us. That is why we will be riding the Defense Message System contract. That is why we use contractors all the time. The Gartner Group, which is a very, very distinguished outside consulting group, works with the State Department extensively, as do any number of other companies and private individuals.

Senator GRAMS. I see we have a vote on, but I want to just close up with a couple of quick questions on personnel. As we prepare the authorization bill, I believe it is very important, very essential for this subcommittee to have accurate figures about the number of people employed by the State Department. Can you tell us what is the total number of people who are currently employed worldwide by the State Department in any capacity—that includes our Foreign Service, Civil Service, foreign nationals, part time, temporary employees and contractors—to get a handle not only on authorized positions, but really how many people do we have on the payroll?

Mr. KENNEDY. Active people around the world? Well, this is a moving snapshot you realize, but on any given day, there are deletions and accessions, but——

Senator GRAMS. If you can get within 100,000, that would be OK.

Mr. KENNEDY. I believe, on September 30th, of 1996, at the end of fiscal year 1996, we had in all the categories you listed, 23,022 personnel on board. That is down some 2,700 people, 10 percent,

since the end of fiscal year 1993. We had almost 26,000 people on board at the end of fiscal year 1993, and we were down to just a hair over 23,000 personnel, all the categories you listed, at the end of fiscal year 1996.

Senator GRAMS. Great. We will ask you to provide some information in categories for us in a written question, as well.

Mr. KENNEDY. Certainly, Mr. Chairman.

Senator GRAMS. We appreciate that. Well, that is all the questions I had. Would you like to make a closing statement of any kind, Mr. Kennedy?

Mr. KENNEDY. Mr. Chairman, only that we have worked with the Senate Foreign Relations Committee for many, many years. We actively seek to continue to work with you. This committee has been a great supporter of the State Department, and we hope to be able to continue that relationship. We are always at your disposal. You, your staff, anyone should always feel free to contact us at any moment. If there is any question or any issue that we can clarify, we are here.

Senator GRAMS. Mr. Greene, you have been awfully quiet.

Mr. GREENE. We really appreciate the comments you said throughout this in terms of supporting our operations worldwide. It does not get a lot of attention. It genuinely helps us a lot.

Senator GRAMS. And I think we share the same goals. I think it is to the benefit of the American taxpayer and American society as a whole to provide the best foreign services that we can through the State Department, and to update technology to make sure the facilities, and also the security, are the best in the world. I think what Secretary Albright said, that we should be and that we are the leader in the world, and that should be reflected in our foreign services as well. So, I really appreciate that.

Of course, while we will be asking you for this information, we leave the door open for cooperation from our end, too, in any upcoming questions or concerns as well.

So, finally in this hearing, I would ask unanimous consent that this hearing's record be kept open for 3 business days for the submission of written questions by any member of the Foreign Relations Committee.

Mr. Kennedy, I do not believe these written questions will be unreasonable. Again, in view of the fact that the Foreign Relations Committee is preparing the State Department authorization bill, I hope that you can assure us that you will be able to respond within a week to any of these questions that are presented to you so we can move ahead as judiciously as possible.

[The answers to Members written questions was subsequently received and appear in the appendix.]

Senator GRAMS. So, again, I want to thank you both for your time and for your very candid answers. Thank you very much. This committee is now in recess. Thank you.

Mr. KENNEDY. Thank you, Mr. Chairman.

[Whereupon, at 12:39 p.m., the hearing adjourned, to reconvene at 10:05 a.m., March 6, 1997.]

THE PRESIDENT'S FISCAL YEAR 1998 BUDGET REQUEST FOR THE USIA AND INTERNATIONAL BROADCASTING

THURSDAY, MARCH 6, 1997

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Rod Grams, (chairman of the subcommittee), presiding.

Present: Senators Grams, Biden, Feingold, and Feinstein.

Senator GRAMS. I would like to call this hearing to order. I would like to welcome, Mr. Duffey, Mr. Klose and also Mr. Silverman, and thank you for your time to be here.

I want to welcome all of you for the second in a series of budget oversight hearings being held by the Subcommittee on International Operations. Today's hearing will focus on the fiscal year 1998 budget request for the United States Information Agency.

Now, again, let me thank the two officials who have agreed to testify before the subcommittee today. Again, they are Dr. Joseph Duffey, who is the Director of USIA; and Mr. Kevin Klose, President of Radio Free Europe Radio Liberty, and Associate Director-designate of the International Broadcasting Bureau.

At the outset, I would like to make the same statement to both of you that I made to Acting Under Secretary of State Patrick Kennedy when he testified before the subcommittee last week on the State Department's "Administration of Foreign Affairs" budget. I am proceeding with this hearing on the assumption that the administration is developing and will present to Congress a proposal for the reorganization of the State Department and also related foreign affairs Agencies, including USIA.

While the subcommittee will not question you about the specifics of any Agency reorganization plan, there is considerable bipartisan interest in this issue. I look forward to receiving the administration's reorganization proposal, and also truly hope that we can reach agreement on a plan that the Foreign Relations Committee as a whole can support.

Today, however, this subcommittee will focus on the programs and activities included in USIA's fiscal year 1998 budget. As you know, there is broad support in this subcommittee for strong and effective American public diplomacy. As a former broadcaster and journalist, I certainly understand the powerful impact of using var-

ious media to get the American message out to the people around the globe. The importance of having an effective organization to advance America's democratic principles increases substantially in countries where the freedoms of speech and the press are subverted.

During the height of the cold war, the U.S. relied heavily on public diplomacy as an essential foreign policy tool for reaching out to peoples living behind the Iron Curtain and under oppressive regimes elsewhere in the world. Although closed societies still exist, USIA must restructure its programs to meet the new and the diverse challenges of the 21st century and the information age.

I recognize that USIA has made some tough choices to downsize and streamline its operations. However, I believe that a more focused commitment by the Federal Government in this area can actually strengthen those programs essential to U.S. public diplomacy.

In recent months, administration officials have announced that America's diplomatic readiness has been undercut by inadequate resources. Well, frankly, I have been disappointed by the tone of some of the more heated comments which have been made. In his farewell address, former Secretary of State Warren Christopher faulted Congress for what he termed as the slashing of international affairs spending. Moreover, he claimed that: ''The amazing thing is that these cuts have not been accompanied by any serious congressional debate. They have not been motivated by any reassessment of our interests in the world. As a result, we are endangered by a new form of isolationism that demands American leadership, but deprives America of the capacity to lead.''

Well, first, I feel compelled to rebut some of Mr. Christopher's patently false assertions. In fact, there was extensive debate in the 104th Congress on legislation to restructure U.S. foreign Affairs Agencies, and to make them better prepared to address American interests in the 21st century.

Second, as the President's past and present budget requests reflect, the Congress and the administration have worked together to downsize and reorganize USIA. Now, given Mr. Christopher's questionable premise that, ''the biggest crisis facing our foreign policy today is whether we will spend what we must,'' I think it is important to put USIA's budget in some context, as I did last week with the State Department's budget.

In fiscal year 1998, USIA is requesting a budget of $1.08 billion. Compared to the President's budget request for USIA in fiscal year 1993, this represents a decline of 28 percent in actual dollars over the 5 years. Moreover, a comparison of the administration's fiscal year 1998 budget request for USIA to the Agency's estimated funding for fiscal year 1997 yields an increase of only about 1.7 percent—a figure which is under the rate of inflation and hardly matches the administration's alarmist rhetoric.

The point of spelling out these numbers is not to argue that the President should have asked for more money or that Congress will not review his request for increased USIA funding very carefully. Instead, it is to demonstrate that both Congress and the administration have recognized stark budgetary constraints, while setting

funding priorities for international affairs. Both branches should be prepared to take full responsibility for their actions.

Now, having said that, I would emphasize that there is firm bipartisan support for USIA's major endeavors, including international exchange programs and international broadcasting. Every Member of the Senate knows someone who has participated in a USIA exchange program, and some may have experienced one themselves.

Yet budgetary limitations and oversight responsibilities demand a constant review of exchange programs to determine which are most effectively meeting U.S. foreign policy objectives. One problem that continues to raise questions is how to eliminate duplication among exchange programs in various U.S. Agencies and with the private sector.

In the area of international broadcasting, questions persist regarding duplication of functions within USIA itself. I hope today to begin an examination of the intent and also the implementation of the International Broadcasting Act of 1994, which consolidated all activities under a newly established Broadcast Board of Governors.

So, I wrap up by again saying I look forward to a very constructive discussion on these issues and many others during the hearing. I hope that it will produce information that will help us and assist us in shaping the State Department Authorization Bill.

So, Dr. Duffey and Mr. Klose, I welcome both of you, again, here today to explain USIA's fiscal year 1998 budget request, and also to outline some of the Agency's priorities. So, again, thank you very much for being here.

I would now like to ask the Ranking Member, Senator Feinstein, for an opening statement.

Senator FEINSTEIN. Thank you very much, Mr. Chairman.

I am pleased also to be here today to examine the budget request of the USIA. I am in agreement with much of what you said. I think it is clear to most of the people, perhaps in this room and maybe in many other rooms, that in a world which is increasingly determined through satellite television broadcasts, where revolution is sometimes fostered by videocassettes, and where information can be transmitted instantaneously over the Internet, public diplomacy and information disseminated in support of American foreign policy goals occupies an ever more central place in foreign policy. I believe it will in the future as well.

We need only to look at the violence in Rwanda and Bosnia to appreciate the power of the media in shaping and moving international events. In both cases, government authorities used mass media propaganda to incite violence and bloodshed. In fact, several prominent analysts have contended that both of these tragic civil wars were only made possible because of the use of mass media by people we now consider war criminals. In both cases, the ability of the international community to provide unbiased information and news is vital to establishing stability and peace.

USIA programs, such as the International CIVITAS Consortium in Bosnia and Voice of America's work with international radio broadcasters in Africa, are important elements of a U.S. policy intended to build a stronger and more durable civil society around the globe.

USIA is all too often ignored or given short shrift in the debate about how best to secure America's security and prosperity. But I think the record is clear. For over 40 years, USIA has played a vital role in promoting American national interests through its overseas information dissemination, through international broadcasting, and through education and exchange programs. I do not think anyone on this committee doubts the importance of the substance of the work carried out by USIA.

What has been questioned—and I think it is a valid question—is whether USIA has been structured to do this work in the most effective and efficient way possible. Although for the last 2 years the USIA budget has been relatively stable, the earlier part of this decade saw drastic reductions in USIA's budget and operations. I believe Dr. Duffey has made many changes as well, which hopefully he will outline today.

I must say that from my perspective, not all of these reductions were unwarranted. I think that the management overhaul, the program consolidation and the reinvention that USIA has undergone, while at times painful, have helped create what in 1997 is a more effective and efficient Agency.

So, I look forward to today's testimony and to the opportunity to discuss USIA's operations.

Thank you, Mr. Chairman.

Senator GRAMS. Thank you, Senator Feinstein.

We would like the opening statements now from our members of the panel. I would just like to request that you keep the opening statements to within 10 minutes if possible. Also a reminder that your entire statement will be entered into the record. So, Dr. Duffey.

STATEMENT OF JOSEPH DUFFEY, DIRECTOR; ACCOMPANIED BY STANLEY SILVERMAN, COMPTROLLER; JACK LOIELLO, ASSOCIATE DIRECTOR FOR EDUCATIONAL AND CULTURAL AFFAIRS; AND DAVID LOWE, NATIONAL ENDOWMENT FOR DEMOCRACY, UNITED STATES INFORMATION AGENCY

Dr. DUFFEY. Thank you, Senator Grams, Senator Feinstein.

Let me introduce, first, some of my associates who are with me today, the Associate Directors of USIA—for Management, Henry Howard; Educational and Cultural Affairs, Jack Loiello; the still new Information Bureau, Barry Fulton; our Counselor, Anne Sigmund; and someone who has just taken up her duties this week, the new Director of the Voice of America, Evelyn Lieberman. We also have a member of the Broadcasting Board of Governors, Alberto Mora.

I appreciate the opportunity to come before this committee and to express my views about the mission and work of USIA and to respond to your questions.

It is no secret that I began 4 years ago to lead this Agency in a process of change. I believe that change has been more dramatic than any change in the foreign affairs area of our Government. The path I chose involved a thoughtful examination of how the world has changed, along with the national interests of the United States. But I have had guidelines from the past, and I want to refer to some of those as I go through this testimony.

One of the early directors of USIA was a journalist, Edward R. Murrow, and widely respected. We sometimes think of Mr. Murrow as standing on the other side of some kind of a wall of isolation from U.S. foreign policy, and his name is sometimes evoked in that regard. I would like to quote what he said, coming before the Congress in March 1963. He referred to a committee—this all perhaps puts the present in some history—he told the Jackson committee, which 10 years before, had stated that any program supported by Government funds can only be justified to the extent that it assists in the achievement of national objectives. Mr. Murrow said, it is the sole purpose of USIA today to further the achievement of U.S. foreign policy objectives.

I quote that as one source for the analysis I have begun. The second is perhaps a little less precise, but it has to do with the conversations that all of us have every week with our colleagues and others about increasing cynicism in America and among the America voters—perhaps as great a threat to the future of our democracy as any other.

As I listen to conversations about this, I remember, first of all, that Americans have always been skeptical about their Government. That is a tradition particularly the English and the Irish brought to contribute. That is not always unhealthy. But there is a sense that today there is something deeper. Generally, those conversations frustrate me, because they end with the suggestion that this is some condition out there and we deplore it, and that is about all we feel we can do.

To some extent, we have created that condition in Government, I believe. We are all unacknowledged conspirators in creating a Government that has made the American people more skeptical. I believe that one of the things we can do is look inside to our own accountability, to our ability to explain what we do and our ability to account for how we use public funds.

We have examined the mission of USIA in the context of the end of the cold war, the new threats we face, the new global technologies, and the current goals and needs of this Nation. In our various incarnations over the past decades, we have had a long and honorable tradition of serving the interests of the United States. But it is also clear from reading history that from time to time our mission has been redefined by changing conditions and new technologies, and the demands and priorities of the time.

For example, in 1945, one of the predecessors of USIA as an Agency was called upon by President Truman to see—and I quote—"that other peoples have a full and fair picture of American life and of the aims and policies of the U.S. Government, supplementing the work of private organizations and individuals."

Only 5 years later, the times had changed. President Truman called for a "campaign of truth." These were the words he used: "We must wage a struggle for the hearts and minds of men—I am sure he would say men and women today—to counter deceit, distortion and lies, used in a deliberate campaign by our adversaries. We must make ourselves heard around the world in a great campaign of truth."

In a milder tone 3 years later, President Eisenhower called upon USIA to make more effective all activities of the Government relat-

ed to international information and to seek to present overseas a full exposition of U.S. actions and policies.

So, over time, with these changing missions, USIA became at one stage the largest official information organization in the world, the largest radio system in the scope of its languages and range of transmitter sites around the world, the largest library system in the world in terms of branches and distributions of books and magazines, the largest noncommercial news distribution system in the world in terms of language and global reach, the largest noncommercial film distributor in the world, and a major source of programs for the movement and exchange of students and scholars around the world.

None of that is true today. Because in every one of those areas, there are now global organizations and partnerships with the private sector. The times have changed. The demands are different. The resources are more restrained. The mission is far more subtle and far more sophisticated. But, for that, it is no less important nor less critical in terms of very practical, direct U.S. national interests that are not being served by any other Agency of the Government or in the foreign affairs community or any organization in the private sector.

The great threat to U.S. interests today is not that we not be loved and admired in some far corner of the world; it is that we be misunderstood, that misjudgments be made by other nations about our interests, our motives, and our willingness to defend those interests when they are threatened.

America is a very puzzling Nation for many who seek to understand how our system works. The contradictions and the ironies that go into our way of making policy and defining our national aspirations befuddle even our most friendly inquirers around the world. We cannot take for granted that even those who seek, in sympathy, to understand our behavior can do so without our being more forthcoming.

Two forces of historical significance are shaping the world we live in—the information/communications revolution and the shift of power away from central Government authority to individuals and publics. These forces require us to reexamine the way in which we engage the world.

I believe that for American leadership to be successful, traditional diplomacy today must be complemented by an open and creative public diplomacy which focuses on the values and beliefs and attitudes and opinions of foreign publics. These new challenges also highlight the need to engage to a much greater extent the talents and resources of our own citizens.

Just 10 years ago, President Reagan foresaw this in a comment he made on the 40th anniversary of USIA. He talked then about what was happening to traditional diplomacy. He referred to how far we have come from the Congress of Vienna—as he put it, when relations between countries had less to do with the people of those countries than with their governments, and when small numbers of diplomats often settled matters of world importance among themselves.

He immediately talked about the appreciation and support of trained diplomats, and made it clear that his remarks were not

meant to be some kind of cheap shot with respect to traditional diplomacy. But then he said: This is the information age, the age of mass media and the microchip, telecommunications and satellites above the planet, and fiber optic cables underground. In this age, traditional diplomacy is not enough. He referred to the fact that Castlereagh, as he said, spoke to Metternich, but leaders today must speak to the peoples of the world.

In the 10 years since that statement, this revolution has been far more dramatic than perhaps even President Reagan foresaw. Even 4 years ago, when USIA ventured out, the first institution in foreign affairs, into the Internet, we were the subject of some derision in this city. Even today, many State Department computers and the computers we have at the U.N. are not hooked up to the Internet.

We started that process. When I think of what has happened in 4 years, it is astonishing. The exchange of information, the bringing together of nongovernment organizations across international borders. Last year, in Canada, I understand more computers were sold than television sets. I am not sure what the figures were for the United States, but it has been an absolutely dramatic change. While I am far from a total believer in cyberinformation, it is clear that it is changing the whole context. It is eroding national sovereignty, for one thing, and changing the whole context both of communication and of the mobilization of peoples and resources.

The United States has newer goals today, newer priorities. What are they?

Greater deregulation of trade and investment, the protection of intellectual property rights, the enactment of laws and agreements regarding transnational investment, and the spread of fundamental freedoms and human rights—an issue that we address in our civic education initiative, called Education for Democracy.

USIA is today ready for a new century. For 4 years, we have worked to become practiced in the art of pursuing these new national interests in an era of frugal diplomacy. We have a new and clear understanding of a more limited but crucial mission in the service of the American people. President Clinton has affirmed our new definition of our mission, and it is this: To promote the national interest and national security of the United States through understanding, informing and influencing foreign publics, and broadening dialog between American citizens and institutions and their counterparts abroad.

This clear and brief statement is much less heroic and ambitious than statements that have been made in the past. But it is the first step toward this Agency's effort to implement the Government Performance and Results Act. Around our place, we have been talking now for some months about GPRA. We have tried to make our presentation in the "Budget in Brief" to you structured around these new requirements set by the Congress, which will be in effect next year.

Each of the objectives that we have outlined directly supports the foreign policy priorities of the Department of State and the White House. The process of arriving at those goals is closely integrated with the Department of State's own planning process. This is more true today than at any time in the history of the USIA.

Our activities cannot always be measured by standard indicators, nor can our customer and stake holder satisfaction be gauged in the usual way. Our mission supports U.S. national interests and advances national security. This means we try to build international support for American policies even when they are unpopular. We base our public diplomacy on the principles of American democracy, even when the target audience is hostile to them. We respond to crises that cannot be foreseen by any planning process, and we operate programs that are longer-term investments in stability, political security and open markets, though they may show fewer immediate results.

We are fully committed, however, to the implementation of the letter and the spirit of the Results Act. We have begun to much more precisely try to measure some of the outcomes. You have some examples; let me just add a few others.

We are prepared and beginning actively to provide support for an open and democratic Europe and for the expansion of NATO. We have already organized programs for this purpose. A week from today, USIA will be the central convener of representatives from the National Security Council, the State Department and others to look at the public strategies necessary to pursue our objectives with respect to NATO expansion.

Recently we brought six key Hungarian parliamentarians on a program that ultimately contributed to the decision of the Hungarian Parliament to authorize the transit and stationing in Hungary of IFOR forces involved in the implementation of the Dayton Accords. Hungary became the first country with a specific budget line item for the Partnership for Peace Program, and the first Partnership for Peace country to sign the NATO Status of Forces agreement.

There are countries today, though relatively few, that work to prevent their citizens from having access to accurate independent news and information. The Voice of America, other broadcasters, Radio Free Europe, Radio Liberty, Radio Free Asia, play a part, an important part, around the world in providing a free flow of information. When Serbian leader Milosevic closed down the independent radio station B–92, RFE/RL responded immediately with expanded hours, and also with facilitating continuation of those broadcasts. Within 24 hours the Milosevic Government relented, and they were back on the air, and the Voice of America carried programs with B–92 correspondents reports immediately.

An exchange visitor from Italy, a government official, who came to the United States for a program on intellectual property rights, was the chief organizer of a raid on local centers of software piracy in that country shortly after participating in our program. Our Information Resource Center in Budapest fostered contacts between American and Hungarian business communities that have resulted demonstrably in business partnerships in the food industry and other sectors. There are other examples I could use. We are prepared in this budget and in future budgets to show that we are bringing those measures of outcomes to direct relationship to our programs. We are prepared to adjust, rethink, and revise them in light of the estimate of those outcomes.

We are one-third smaller than we were 4 years ago, but the goal has not been simply to downsize, it has been to selectively reorganize and reexamine our work. We have invested more of our resources in the last 4 years relative to our total budget in training and retraining our employees and into new technology than in any other period in our history. We are retooling for future service in a changed and changing world. What we do, we do more creatively and more efficiently. We are trying to present ourselves not as an organization with a bag of tools and a list of programs, as we may have been tempted to do in the past, but as a team of experienced experts in communicating these important policies, facts, opinions, nuances, and corrections that most often do not make the headlines or even the body of the story on CNN or Reuters or any other commercial news service.

We have already begun to build on this, and request this year a $1.078 billion budget, significantly down from what the budget of this Agency was in the 1980's. But this Agency's budget for 45 years grew practically ever year. With this budget, however, we will have further program and staff reductions. USIA is making reductions deliberately and strategically as a part of our extensive reinvention project. But this has been disrupted in the last few years by even deeper cuts than we had planned for. I believe in view of the challenges that this country confronts and the importance of the work USIA has undertaken in a new spirit, in a new way, in a new organization, that we must resist the temptation to make deeper cuts and instead stabilize at this point as we continue to plan for the future.

What I have tried to say today is that USIA understands the changes and the nature of this time, that we have heard what the American people are saying about their Government, that we understand the changes that have taken place in our interests and objectives, and that we are changing to meet the demands of the times. But we remain unabashed advocates for the interests of the American Nation and a team of strategists with an understanding of the publics that we need to reach and reform.

Let me just close by referring to an article in the Wall Street Journal a week ago by two prominent members of the congressional majority leadership, Representative Gerald Solomon of the House Rules Committee and Representative Christopher Cox of the House Republican Policy Committee. They discussed the elements necessary for U.S. global leadership. They discussed issues that are going to be the central item of debate about the foreign policy and foreign affairs requests you have before you. I refer to one sentence in that article that the two Congressmen wrote: American leadership, they said, derives, one, from our powerful ideas and values, our global military presence, and the economic benefits of the free enterprise system.

Whatever differences may emerge in this session of Congress about our foreign affairs budget, I believe that those words do express a minimum consensus. One third of the three elements the Congressmen cite, our powerful ideas and values, represents the central focus of every program that the USIA is engaged in. I suggest to you that, however the world has changed in terms of technology, these are not the main objectives of CNN or Reuters or

global technology. Our ideas and values must be pursued in a concentrated and deliberative and as wise an effort as we can muster. Compared to the costs of our other activities overseas, this one-third of the agenda represents a very modest but powerful investment that directly relates to the future of U.S. leadership.

I have provided, for the members of the committee, lists of the changes that have taken place; a CD ROM which shows some of the application of new technologies to a specific national interest; and some graphs demonstrating the changes that we have made in our administration.

Thank you.

[The prepared statement of Mr. Duffey follows:]

PREPARED STATEMENT OF MR. DUFFEY

Chairman Grams, Senator Feinstein, Members of the Subcommittee: I appreciate this opportunity to appear before the Subcommittee today to express my views on the mission and the work of the United States Information Agency and to respond to your questions.

It is no secret that I began four years ago to lead this Agency in a process of change. The path I chose involved a thoughtful examination of how the world has changed along with the national interest of the United States.

We have examined the mission of USIA in the context of the end of the Cold War, the new global technologies and the current goals and needs of our nation.

The USIA—in its various incarnations over the past several decades—has a long and honorable tradition of serving the interests of the citizens of the United States.

It is also clear from a reading of history that, from time to time, our mission has been redefined by changing conditions, new technologies, the demands of the time and the priorities of the day:

- In 1945, President Truman called upon one of our predecessor organizations to work to see that "other peoples receive a full and fair picture of American life and of the aims and policies of the United States government ... supplementing the work of private organizations and individuals"
- Five years later, in 1950, the times had changed and President Truman called for a "campaign of truth," waging a struggle for "the hearts and minds of men"- "to counter deceit, distortion and lies used in a deliberate campaign by our adversaries ... We must make ourselves heard around the world," he said, in "a great campaign of truth."
- In a milder tone, three years later, President Eisenhower called upon the USIA to "make more effective all activities of the Government related to international information" and to seek to present overseas "a full exposition of U.S. actions and policies."

And so, over time, the USIA and the U.S. Government's international broadcasting, the major part of which has been administered by USIA, became during several points in the history of the Agency:

- one of the largest official information organizations in the world;
- the largest radio system in the scope of its languages and range of transmitter sites in the world;
- the largest library system in the world in terms of branches and distribution of books and magazines;
- the largest noncommercial news distribution system in the world in terms of languages and global reach;
- the largest noncommercial film distributor in the world; and
- a major source of programs for the movement and exchange of students and scholars around the world.

None of this is true today. The times have changed; the demands are different; resources are more restrained; the mission far more subtle and sophisticated—but for that, no less important nor less critical in terms of very practical U.S. national interests that are not being directly served by any other agency of the government or any organization in the private sector.

Today, the great threat to U.S. interests is not that we not be loved and admired in some corner of the world—but that we be misunderstood—that misjudgments might be made by other nations about our interests and our willingness to defend those interests when they are threatened.

America is indeed a puzzling nation to many who seek to understand how our system works—and the contradictions and ironies that go into our way of making policies and defining our national aspirations. And we cannot take for granted that even those who seek in sympathy to understand our behavior can do so without our being more forthcoming.

Two forces of historic significance are shaping the world we live in—the information—communications revolution and the shift of power away from central government authority to individuals and publics. These forces require all of us to reexamine the way in which we engage the world. believe that for American leadership to be successful, traditional diplomacy must be complemented by an open and creative public diplomacy which focuses on the values and beliefs, attitudes and opinions of foreign publics. These new challenges also highlight the need to engage to a much greater extent the talents and resources of our own citizens. These are tasks to which USIA is well-suited.

We have, in addition, newer goals in the world—quite practical objectives:

- greater deregulation of trade and investment;
- protection of intellectual property rights;
- the enactment of laws and agreements regarding transnational investment; and
- the spread of fundamental freedoms and human rights. An example of this is our civic education initiative, called "Education for Democracy," which emphasizes the rights and roles of citizens as full participants in the political and economic life of their societies.

Today the USIA is ready for the new century.

For the last four years we have worked to become practiced in the art of pursuing these new national interests in an era of frugal diplomacy.

We have a new and clear understanding of a more limited but crucial mission in our service to the American people and American interests abroad.

President Clinton has affirmed our updated definition of USIA's mission:

It is this:

- to promote the national interest and national security of the United States of America through understanding, informing and influencing foreign publics, and broadening dialogue between American citizens and institutions and their counterparts abroad.

This clear and brief statement of our mission is also the first step in the Agency's implementation of the Government Performance and Results Act. We have broken down this mission into three broad strategic goals and, under those objectives, we have established more specific target outcomes for our worldwide activities. Each of our objectives directly supports the foreign policy priorities of the Department of State and the White House. The process of arriving at these goals, moreover, is closely integrated with the Department of State's own planning process. This is more true today than at any time in the history of the USIA.

As a foreign affairs agency of the United States Government, our activities cannot always be measured by standard indicators, nor can our customer and stake holder satisfaction be gauged in the usual way. Our mission supports the U.S. national interest and advances American national security. This means:

- we build international support for American policies, even when they are unpopular;
- we base our public diplomacy on the principles of American democracy, even when our target audience is hostile to them;
- we respond to crises that cannot be foreseen by any planning process; and
- we operate programs that are long-term investments in stability, political security and open markets and may show few immediate results.

Nonetheless, we are fully committed to implementation of the letter and the spirit of the Results Act throughout USA Let me give you some specific examples of how we judge "outcome" and not just "output":

- As part of our support for an open and democratic Europe and for the expansion of NATO, USIA organized a program for six key Hungarian parliamentarians. this program contributed to the decision of the Hungarian Parliament to authorize the transit and stationing in Hungary of IFOR forces involved in the implementation of the Dayton Accord. Hungary also became the first country with a specific budget line item for Partnership for Peace and the first PFP country to sign the NATO Status of Forces Agreement.
- Many countries try to prevent their citizens from having access to accurate, independent news and information. The Voice of America and other broadcasters play an important role around the world in providing a free flow of in-

formation. When Serbian leader Slobodan Mliosevic closed down the independent radio station B–92, VOA and RFE/RL responded with expanded hours of both medium and shortwave broadcasts in Serbian. VOA and RFE/RL also carried B–92 correspondent reports. After one such day of media exposure, Mllosevic relented and B–92 was back on the air.

- An exchange visitor from Italy who came to the United States for a program on intellectual property rights later organized a major raid on local centers of software piracy.
- The USIA Information Resource Center in Budapest fostered contacts between the American and Hungarian.business communities that resulted in business partnerships in the food industry and other business sectors.
- Members of the first Palestinian Legislative Council were brought to the United States by USIA to experience firsthand how the U.S. Congress and state legislatures function. This knowledge will assist them in establishing the basic governing institutions of the Palestinian Authority.
- A USIA grant to Southern Illinois University led to FCC collaboration with the newly created South Africa Independent Broadcasting Authority to establish the regulatory framework for South Africa's first electronic media.

We are not only adapting our programs to meet new challenges, we also are preparing our work force for the twenty-first century. It is already one third smaller than it was four years ago. But just resizing our work force is not the point We are far more focused and more flexible than we were four years ago.

- Over the past four years, the new USIA has invested of its resources, relative to the total annual budget, in training and retraining its employees and into new technology each year than in any other period in its history. We are retooling for future service in a changed and changing world.
- Our work force is reduced by one third, but what we do, we do more creatively and efficiently.
- We seek to present ourselves today not as an organization with a bag of tools and a list of programs, but rather as a team of experienced experts in communicating those important policies, facts, opinions, nuances and corrections that most often fail to make the headlines and, too often even the body of the story on CNN or Reuters or any other commercial news source.

This is indeed a new time.

To continue our support for American leadership in the world and to build on the work that has already been done, we are requesting $1.078 billion for FY 1998. This will cover most of the costs of the Agency's current service requirements and enable the Agency to stabilize core programs and operations.

With this budget, however, further program and staff reductions will be necessary in FY 1998. While USIA is making reductions deliberately and strategically as part of its extensive reinvention efforts, the Agency has been forced over the past several years to make faster and deeper cuts than I believe are wise in view of the challenges which confront America around the world.

With FY 1998 program reductions of $13.9 million, USIA's appropriations under this request will be 33% below the 1993 level in constant dollars. Staff reductions of 128 in FY 1998 will bring total workforce reductions to 29% in the same time frame.

Although we project further reductions, we propose $3.4 million to allow innovative expansion of technology for Agency programs, strengthen broadcasting audience research and establish a new office to increase cooperation and eliminate duplication among agencies conducting international exchanges and training.

This Agency also continues to streamline its operations and to work with other agencies to integrate administrative functions.

We have also proposed draft authorizing legislation together with several changes to existing statutes for the Committee's consideration as the budget is prepared for 1998.

What I have tried to say to you today is that USIA understands the changes and the nature of this new time. We have changed and will continue to change with the times and the demands of the time.

We remain, however, unabashed advocates for the interests of the American nation—a team of strategists and tacticians with an understanding of the publics we need to reach and inform and convince if our national policies are to be successful.

Mr. Chairman, Members of the Subcommittee, I believe that the public diplomacy programs of USIA remain an important strategic investment that America must support to protect and sustain its vital interests in the future.

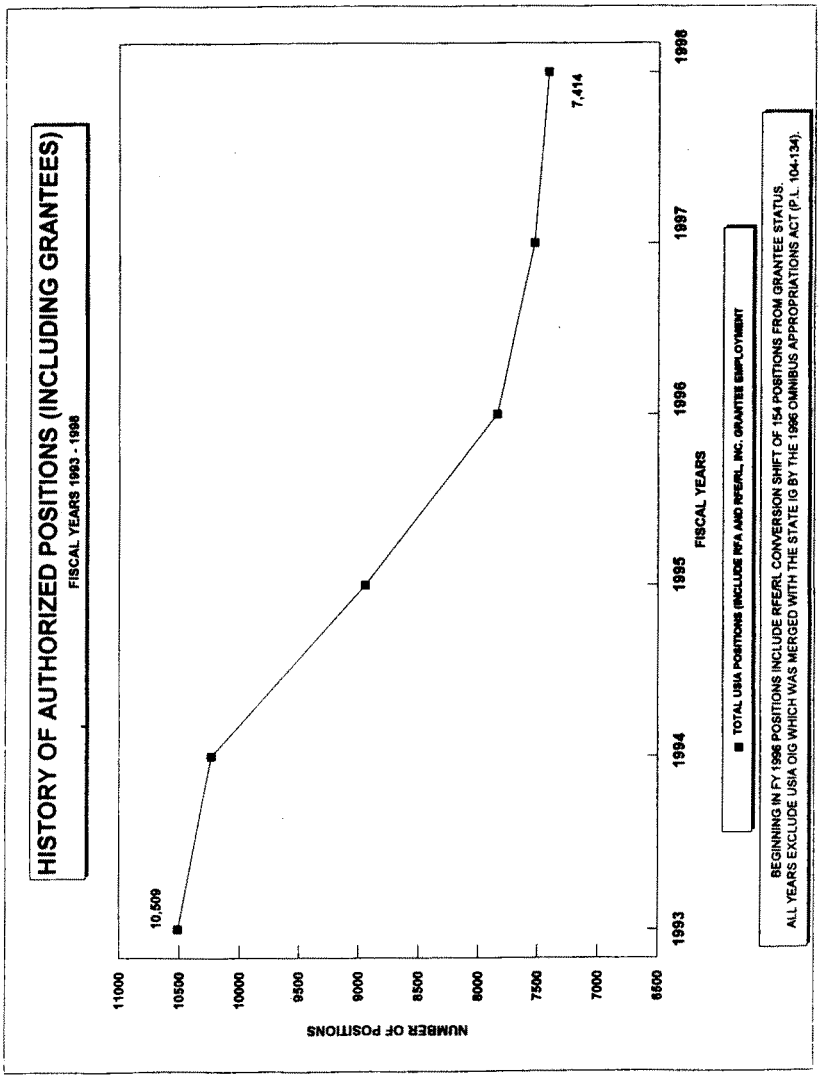
Last week, The Wall Street Journal carried on its editorial page an article by two prominent members of the Congressional majority leadership. Representative Ger-

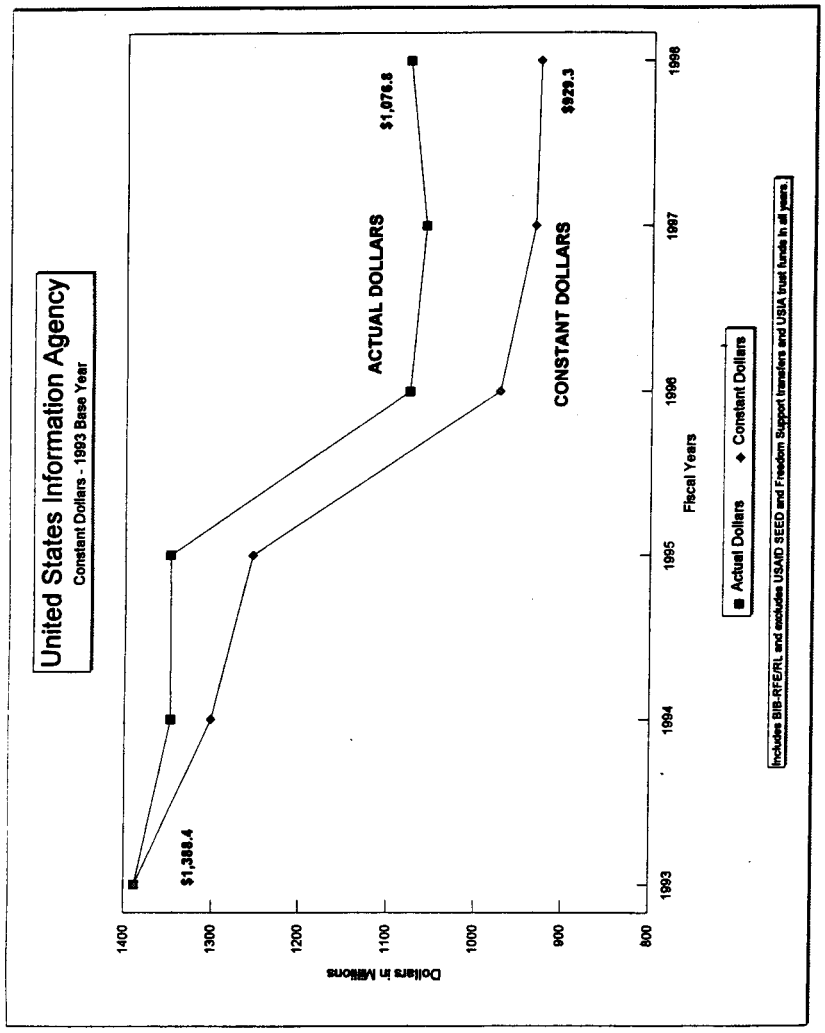
ald Solomon, Chairman of the House Rules Committee, and Representative Christopher Cox, Chairman of the. House Republican Policy Committee, wrote about the elements necessary for U.S. global leadership. Their discussion of a number of established programs will contribute to the debate we are having about how to pursue our national interests as we look to a new century.

At one point the two Congressmen wrote the following: "American leadership derive ... from our powerful ideals and values, our global military presence and the economic benefits of our free enterprise system."

Whatever differences may emerge in this session of the Congress about our foreign affairs budget and strategies, I believe that these words do express a consensus. Now one third of the three elements the Congressmen cite, "our powerful ideals and values" represent the central focus of every program that USIA is engaged in. Compared to the costs of other activities overseas this one third of the agenda represents a modest investment, but a powerful one, an investment directly related to the future of US leadership in the world.

Thank you, Mr. Chairman. I would be happy to address any questions you or your colleagues may have.


HISTORY OF AUTHORIZED POSITIONS (INCLUDING GRANTEES)
FISCAL YEARS 1993 - 1998
NUMBER OF POSITIONS
11000
10500
10000
9500
9000
8500
8000
7500
7000
6500
10,509
7,414
1993
1994
1995
1996
1997
1998
FISCAL YEARS
TOTAL USIA POSITIONS (INCLUDE RFA AND RFE/RL INC. GRANTEE EMPLOYMENT
BEGINNING IN FY 1996 POSITIONS INCLUDE RFE/RL CONVERSION SHIFT OF 154 POSITIONS FROM GRANTEE STATUS.
ALL YEARS EXCLUDE USIA OIG WHICH WAS MERGED WITH THE STATE IG BY THE 1996 OMNIBUS APPROPRIATIONS ACT (P.L. 104-134).


United States Information Agency
Constant Dollars - 1993 Base Year
ACTUAL DOLLARS
CONSTANT DOLLARS
$1,388.4
$1,076.8
$929.3
Dollars in Millions
1400
1300
1200
1100
1000
900
800
1993
1994
1995
1996
1997
1998
Fiscal Years
Actual Dollars
Constant Dollars
Includes BIB-RFE/RL and excludes USAID SEED and Freedom Support transfers and USIA trust funds in all years

USIA's record of reinvention, begun in 1993 and based upon review of mission, changing international realities, available new technologies, and efforts to manage federal deficit:

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1. Consolidation of all USG broadcasting activities with major savings and new definition of mission

2. Closing of Bureau of Policy and Programs, closing down activities such as magazine publishing and exhibits

3. Creation of Bureau of Information - 30% smaller with new model of team-managed, customer-oriented, and agile organization

4. Reductions in Bureau of Management budget by 20% - Exploiting new technologies and strategic alliances with other USG departments and agencies

5. Planning for reorganization of Bureau of Educational and Cultural Affairs

Since October 1, 1993 - reduction of 1,932 positions and additional 1,180 "grantee" positions in RFE/RL broadcasting and through 1996 - reduction of 517 overseas Foreign National Employee positions, 437 Foreign Service and Civil Service positions in USIA

Senator GRAMS. Thank you very much, Mr. Duffey. Mr. Klose, your opening statement.

STATEMENT OF KEVIN KLOSE, ASSOCIATE DIRECTOR FOR BROADCASTING, U.S. INFORMATION AGENCY

Mr. KLOSE. Mr. Chairman and members of the committee, I am very pleased to appear before you today as the representative of David W. Burke, Chairman of the Broadcasting Board of Governors. I am Director designate of the International Broadcasting Bureau, and have served as President of Radio Free Europe/Radio Liberty for the past 2½ years.

We in international broadcasting owe a special debt to the Senate Foreign Relations Committee and your subcommittee for continuing support of our activities and missions in furtherance of America's foreign policy goals. I would like to add a personal note of thanks to Senator Biden for his steadfast dedication to the principle of the independence and integrity of all our broadcasters, as is enshrined in the Broadcasting Act. I would also like to thank Senator Feingold, because by insisting that Radio Free Europe/Radio Liberty must economize, you helped us take a good, hard look at ourselves and come up with a more cost-effective way of achieving our goals.

Mr. Chairman, I have a prepared statement. I ask the committee's permission to submit it for the record.

Senator GRAMS. It will be so submitted.

Mr. KLOSE. Thank you.

I would like to briefly mention that the 1998 request for international broadcasting is a total of $399.5 million. The question for all of us is what does that money buy in terms of U.S. foreign policy goals, in terms of the national security interests of the United States. Mr. Chairman, I need only look at the headlines in recent days and in recent weeks to see the interplay of the international broadcasting entities of the United States and foreign policy goals of the United States and major national issues that stand before us.

I would mention Albania, which is now in a state of crisis. That crisis in part focuses on demands that are sweeping the country for freedom of expression, for new politics, for democracy to express itself. In this crisis situation the Voice of America has been a principal actor bringing voices of democracy forward, and the regime has responded in kind. Five in-country affiliates of the Voice of America, radio stations on Albania, have been silenced.

There is now widespread state censorship of all the media. VOA's dedicated and resourceful stringers in-country are in hiding, fearing further measures of repression from the government. There is one Voice of America affiliate still functioning in the capital of Tirana. We are now broadcasting into Albania using short-wave transmitters that are out-country, that are from elsewhere in Western Europe, and we are reaching listeners as well by several medium-wave transmitters into Albania.

This crisis, and the earlier crisis that we saw centered on Radio B–92 in Belgrade, and the broader crisis in Serbia, are distinctive in my mind because they focus on rights of free information and they focus on the mass media. The 6-month crisis in Serbia which

ultimately focused American interest on the role of independent media in places where independent media struggles to exist at all became for us a focal point and an object lesson about how international broadcasting, led by the U.S. international broadcasting entities, in this case the Voice of America and Radio Free Europe/Radio Liberty, combined to in effect force the Milosevic Government to put B–92 back on the air, and in fact by that solidarity of the international broadcasters showed the reach and the relevance of our broadcasters and our broadcasting effort every day.

These two countries—Albania, Serbia—are, of course, located in what has been a historic human seismic zone where issues of government repression and the aspirations of individuals and whole societies to break out of entrapment to find their own way to take on for themselves self government and to emulate and then become functioning civil societies under rule of law. This seismic zone is, in effect, in my view, analogous to the situation that U.S. international broadcasters face in many other parts of the world, in China, in parts of Africa, elsewhere in Asia.

The international broadcasting community, fueled by American taxpayer dollars, is leading in bringing ideas, in bringing American values, American perspective, and American explanations of how you achieve democracy, to those people in the surrogate grantee operations of Radio Free Europe, Radio Liberty, and Radio Free Asia. There, the broadcasting is focused much more in the region, and allows people in the region to have access to balanced, accurate objective information that is relevant in a specific way to their own lives and their own concerns on a daily basis, while the Voice of America conveys America's ideas and American perspectives to people.

These organizations in these countries, and I have traveled in many of them personally, the organizations, Voice of America, Radio Free Europe, Radio Liberty, and Radio Free Asia, and Radio Mari—I have not been able to travel to Cuba—but these radio voices, and now increasingly television and our use of Internet, stand as not just symbols, but reality of American presence in the effort to transform struggling societies and to bring them into the democratic era.

Many people have said that the 21st century may be the century of democracies, and we see the trends gathering. We know that the developments in Central Europe and elsewhere in the last quarter of this century have set the stage for what is to happen in the 21st century. The international broadcasting community of the United States is a front-line player in that activity, in that effort to transform those societies and bring stable civil societies forward.

Other places we could think of are, for example, in Iran. The Voice of America is now simulcast, television and radio service in the Farsi language. We know it is having an effect, because we have reports, credible reports, of Iranian authorities going literally from house to house taking down the satellite dishes, removing them, and people have found ways themselves to remove them in the daytime and put them up again at night. The responses that we have seen, both anecdotally and in fact to this kind of co-broadcasting or simulcasting into Iran, sets the stage for what we are

looking at going forward in the 21st century with the international broadcasting community.

The cooperation and coordination which came out of the 1994 International Broadcasting Act which Voice of America, RFE/RL, and all the entities have engaged in has shown that although there are differences, and distinctly so, and in my view those differences are a rich mix of American contact in different ways with many different audiences and for different reasons, these entities have also cooperated in new ways. There was overlap prior to 1994 in such things as Russian broadcasting by the Russian Service of Voice of America and Radio Liberty's Russian service. That has ended. Significant economies have been made in the transmission schedules, and cooperation continues amongst these broadcast entities.

The interactive nature of the 21st century beckons to us in a very strong way. Most of these radio or broadcast entities have home pages on the Internet, and are receiving thousands and thousands of inquiries or hits a day. They are putting their own news in real audio on the Internet, and we are beginning experiments, I believe, with real video. Soon that is going to be available to us, as well.

Most of us are aware of the views of people such as Michael Bloomberg and our own board members on the Broadcasting Board of Governors, Mark Nathanson, who is a very successful television entrepreneur in Southern California and worldwide; Carl Spielvogel; Chairman Burke, himself, who comes out of American television and knows the broadcast business, are very eager to help us shape a future which is interactive, in which the visionary notions that people are having now about the interactivity of the 21st century will be part and parcel of what we do as we go forward.

I would like to end my comments in this part of my testimony simply by citing several, in effect, eyewitnesses, or ear-witnesses, in this case. These are anecdotal examples of the power of these broadcasting services even now, today.

Here is a letter which the Voice of America received from Hopei Province in China: I am a loyal listener of VOA. So long as there is time, I cannot pass up the chance to listen to your station's broadcast. I think that VOA is the world's most impartial, most objective, speediest news station. You could say that no station can rival VOA. That is from VOA's China branch.

In Russia, I would like to quote to you from the Financial Times of London, in its editions of January 4–5 of this year. This was from a piece written by Chrystia Freeland, who is a correspondent, bureau chief for Financial Times of London in Moscow. She writes: This decline in the credibility of Russian journalism has had one bitterly ironic result. According to Andre Pyontikovski, a Russian political scientist, 5 years after the collapse of the Soviet Union, the country is again tuning into the foreign radio broadcasts originally created to upset the communist regime. Quote: Radio Liberty has again become Russia's best source of objective information.

We have seen this phenomenon at Radio Free Europe across our region. When the countries that we are broadcasting to in that part of the world encounter political difficulties, turmoil, upheaval, scandal, there is an instinctive interest on the part of people who have been listening to their indigenous radio and television, watching

television and reading the local media. Two things happen. There is a rise in the polemics inside the country, and there is instinctively a wish to find objective, reliable sources of information which have been out there for many, many years, and people turn to these radios, both Radio Free Europe/Radio Liberty, and to Voice of America. In my view, those are the kinds of lively examples that prove both the relevance of the enterprise and sets the stage for us to further evolve and accept and make use of the revolutionary new technology which is coming on line soon.

Mr. Chairman, thank you very much.

[The prepared statement of Mr. Klose follows:]

PREPARED STATEMENT OF MR. KLOSE

Mr. Chairman and Members of the Committee, I am pleased to appear before you today as a representative of David Burke, Chairman of the Broadcasting Board of Governors. I am also the Director-designate of the International Broadcasting Bureau, a position I will assume after 4½ years with Radio Free Europe/Radio Liberty, Inc., the last 2½ as RFE/RL President. I am honored to have been asked to help meet the challenges for change that face U.S. international broadcasting in the 21st Century and would like to share with you my perspectives as you preview our Fiscal Year 1998 and 1999 budget request.

U.S. international broadcasting has consistently served as an inexpensive, effective tool for encouraging peaceful change and democracy. It is an essential element in defending and promoting the freedom and security of the United States abroad while encouraging the evolution of a more stable and peaceful world. What excites me about our broadcast entities is that, despite budget reductions of over 30% in the past four years, U.S. international broadcasting today is engaged with its audience. It is interactive, it is shortwave, it is AM and FM, it is satellites, it is television, it is the Internet and "real audio," available via home computer worldwide in over 17 languages. It has evolved to meet the challenges of today, to meet the needs of its listeners and to serve U.S. foreign policy interests globally.

The broadcast elements under the new Broadcasting Board of Governors include the Voice of America, WORLDNET television, Radio and TV Marti, and the grantee organizations Radio Free Europe/Radio liberty and Radio Free Asia. Each of these entities is engaged in the daily struggle to encourage the free flow of information and ideas and to promote human rights from China to Cuba, from Zaire to Serbia.

The world to which we broadcast has changed. There is greater truthfulness and candor in the media of a number of former communist countries than there was eight years ago. But the role of RFE/RL, VOA, RFA and the Martis remains critical. We need only to look at the past six months in Serbia as an example. Coverage of pro-democracy demonstrations in Belgrade was forbidden and absent on state-controlled media. In December, Serbian President Slobodan Milosevic silenced the Belgrade independent station Radio B–92. Both RFE/RL and VOA responded immediately to the need for accurate, fair reporting on the scope of the opposition forces and government reaction to their activities. The expansion of shortwave, medium wave and television broadcasting to the region, as well as Internet access, provided audiences with in-depth coverage and analysis of events as well as U.S. and world reaction to developments there. Veran Matic, senior editor at Belgrade's B–92 station, has confirmed the significant role both RFE/RL and VOA played in returning that station to the airwaves. The pro-democracy movement was supported and strengthened by U.S. international broadcasters in a dramatic example of fulfilling U.S. foreign policy goals in a troubled and volatile part of the world.

In the U.S., freedom of the press and access to multiple sources of news is guaranteed by our Constitution. But the world to which we broadcast knows the reality of powerful governments controlling radio and television, intimidating or shutting down independent media that criticize or speak truthfully of shortcomings and political repression. The internationally recognized Committee to Protect Journalists is scheduled to release its annual survey on press freedom violations around the world on March 14. It will report that in 1996, 26 journalists were murdered and 185 imprisoned in 24 countries. This grim toll - murder and imprisonment of journalists outside our borders - is powerful testimony to the need for the work we do.

A keen example of meeting today's challenges with innovative programming is our expansion of interactive programming with listeners. Last Fall, the Voice of America launched five of its regular radio shows on television, in Farsi, Russian, Serbian,

Mandarin and Arabic. This type of radio/TV simulcast is cost efficient and feedback from the listeners is impressive. The Iranian government's response to the one-hour issue-oriented call-in show "Roundtable With You" was an accelerated confiscation of private citizen's satellite dishes. People still watch at great risk and call-in to the program, at great expense. Dedicated viewers install their dishes at night to tune-in and then remove and hide them in the morning, often taping the simulcast to share with those who do not have dishes.

From its new, highly efficient broadcast center in Prague (rent, $12 a year for the entire former Federal Parliament Building in Wenceslas Square), Radio Free Europe/Radio Liberty has strengthened its surrogate "home radio" presence throughout Central Europe and the former Soviet Union. Interactive call-in segments in which listeners speak with experts on international relations, economic reform, family health, ethnic diversity, and similar issues are featured in the Russian, Slovak, South Slavic, Ukrainian and other RFE/RL services.

The Marti's demonstrated their critical role in providing news and information to Cuba following the shootdown of Brothers to the Rescue last February, and more recently with its balanced coverage on the licensing of news organizations in Cuba and the plan for a democratic transition there.

Feedback from China on Radio Free Asia is received via RFA's Hong Kong mailbox where letters arrive from throughout China expressing overwhelming support. A loyal listener in Tianjin says, "... our television reports and papers are filled with false stories, which has seriously limited fur understanding of domestic and international politics... But Radio Free Asia's news reports and interviews with activists in the democracy movement feel very warm and honest..."

The thread which links all of our broadcast-entities is the commitment to fair and balanced reporting. Each U.S. international broadcasting entity adheres to these standards while fulfilling American foreign policy objectives, providing viewers and listeners with information they cannot get from commercial sources. For example, VOA's recent broadcast of the President's State of the Union Address, including the Republican response by Representative J.C. Watts, is consistent with our commitment to fairly project American policy and perspective.

Technology is evolving rapidly for international broadcasters. In parts of the world where TV and the Internet are accessible, we are delivering. But in many parts of the world, shortwave radio remains the most valid means for delivering programs. Radio remains the predominant vehicle for information in much of Africa, for example. Although the number of radio stations in Africa has increased, most are still government controlled, a circumstance that actually increases the need for accurate, balanced information from and about the United States and the world.

Mr. Chairman, a word about our 1998 budget. We are requesting $399.5 million—$366.8 million for International Broadcasting Operations and $32.7 million for Radio Construction. This represents a current service level for the most part—with one enhancement for additional audience research to increase the availability of valid, up-to-date information on our audiences.

A quick review of broadcasting's recent budget history may provide a useful perspective on this modest request. During the period 1994 to 1997:

- international broadcasting's budget has decreased 31%;
- the staff of international broadcasting has been reduced by over 1450 positions;
- over 490 direct broadcast programming hours via IBB-operated shortwave and medium wave transmitters per week have been eliminated (about 29%).

Despite these severe reductions, our broadcast operations have accomplished:

- the launching of Radio Free Asia in its first 5 languages, as mandated by Congress;
- joint ventures with USAID and Carnegie Corporation to provide programming about Angola, Central Africa, and on conflict resolution initiatives in the Balkans, Afghanistan, and South Africa;
- a reunification program in Central Africa through VOA's two new languages to that area, Kirundi and Kinyarwanda, helping hundreds of refugee families separated by the mass exodus there to reunite;
- the technical coordination of RFA, VOA and RFE/RL broadcast schedules to avoid overlap;
- crisis coverage of events this past year in Albania, Burma, Rwanda, Zaire, Serbia, Belarus, and other regions;
- intensive human rights coverage by all services, including RFA's focus on repressive policies in China and Tibet and Radio and TV Marti's regular program, "Tus Derechos, Cubano (Your Rights, Cuban)."
- 500 WORLDNET interactives dialogues with newsmakers beamed via satellite to all regions of the world;

- a joint initiative with the Justice Department and VOA to broadcast "International Crime Alerts" profiling international fugitives on VOA weekly and on VOA's world wide web page;
- initiation of the conversion to digital technology;
- expansion of broadcast affiliates to broaden coverage and access to listeners globally;
- strengthening of RFE/RL journalism training program in Prague, linking with privately-funded Foundation for Independent Journalism to teach fact-based journalism to promising reporters and editors from the region;
- expanded live RFE/RL programming from its news bureaus in 19 capitals, adding new relevance to its daily broadcasts in 19 languages.

Mr. Chairman, international broadcasting is a real bargain. Our successes in Africa, Iran, China, Serbia, Russia and elsewhere around the world were accomplished with a 1997 budget that represents approximately two percent of total Federal spending on international affairs.

I believe that enactment of our 1998 request will enable international broadcasting to stabilize operations after an unsettling period of reorganization and downsizing. It will provide a solid platform from which to advance our mission into the twenty-first century.

I look forward to working with members of this committee as the budget process proceeds and can assure you that I will work toward the most efficient utilization of funds entrusted to us by Congress. I would be happy to answer any questions you may have at this time.

Senator GRAMS. Thank you very much, Mr. Klose.

Senator Feinstein just had to attend another hearing, but she plans on returning shortly this morning to also ask more questions of this hearing. So, I would like to just start out by addressing Dr. Duffey first of all, and also, Mr. Klose, if anytime you want to chime in if some of these questions are not directed specifically at you or for both of you.

Dr. Duffey, as I said in my opening statement, the subcommittee is not going to be questioning you today on any of the specifics of a particular proposal to reorganize the State Department and related foreign affairs agencies. However, this issue came up twice last week during hearings on the budgets for the State Department and also the Agency for International Development. Therefore, Dr. Duffey, I would like to just ask you if it is your understanding that the administration is developing a reorganization plan for U.S. Foreign Affairs Agencies, and that this proposal will be presented in the near future to Congress.

Mr. DUFFEY. It is my understanding, Senator Grams, that Secretary Albright, Vice President Gore, members of the National Security Council, are consulting, and will have prepared for the Congress a program for addressing the issue of consolidation.

Senator GRAMS. Of course, the obvious question would be have they consulted you? Have you had your input on how USIA is going to figure in or be reconfigured in this new organization plan?

Mr. DUFFEY. Well, several of these consultations have gone on for several years. USIA has worked closely with the State Department to consolidate certain functions to make them more efficient and reduce costs. The consolidation of the Office of Inspector General, which has achieved considerable savings, was a proposal by USIA, and I believe it has already been demonstrated that it is successful. We have expressed our views. They are very consistent with the testimony I have just given.

My hope for USIA is first of all that it serves more than the State Department and is not the public relations arm of the State Department. We have a major presence overseas and provide sup-

port to Justice, Treasury, Commerce, and other Agencies. USIA must serve all of those Agencies.

I have tried very hard to make USIA a less bureaucratic, more agile, flexible institution. I think we have already demonstrated that we can respond more quickly and more directly than some of the larger institutions. We are not an Agency that makes policy, we are a service Agency to the Government in all our presence overseas.

We have been a part of the conversation. The Secretary, looking at this with fresh eyes, and I think a great deal of familiarity with the institutions involved, will bring forth her proposal. I think to date she has kept her counsel, but I am quite sure the proposal will come to the Congress.

Senator GRAMS. OK. As you know, this committee is moving ahead as quickly as possible to try to put this together. So, we appreciate any effort on your part, and also on Secretary Albright's, to forward that information.

Dr. Duffey, as you know, the International Broadcasting Act of 1994, which you refer to, and also Mr. Klose, consolidated all international broadcasting activities under a nine-member Broadcasting Board of Governors, the BBG, of which you are a statutory member. The statute creating the BBG specifies that it is established within the United States Information Agency. Now, the statute also specifies that the BBG should forward its recommendations concerning its proposed budget to the Director of the United States Information Agency for consideration of the Director as part of the Agency's budget submission to OMB.

However, the statute also grants the board the authority to direct and supervise all broadcast activities conducted by USIA. So, the question, could you describe for the committee how you view the institutional relationship between the Office of the Director of USIA and also the Broadcasting Board of Governors?

Mr. DUFFEY. Well, let me say first of all, Mr. Chairman, that we are dealing here with an extraordinarily complicated set of institutions and problems. The Congress did not have responsibility for the Board of International Broadcasting, which supervised Radio Free Europe and Radio Liberty for the first 20 years of its existence. It had ample funding, but this was covert funding.

Congress then began to work out an arrangement to have an International Broadcasting Board, which was at the same time a publicly designated and Senate-confirmed group that awarded the funds they received to a corporation of which they were the members to administer the Radio Free Europe/Radio Liberty programs. When I came on board in May 1993, the previous administration had proposed that this funding be eliminated altogether.

It became clear to me that there was a need for changes. Any institution that had existed with this kind of history faced a difficult transition. But also that there was an important need for this institution to continue. The Congress then—we began to work with a great deal of consultation. Representatives of RFE/RL will remember spending 2 or 3 days in hotel rooms in various parts with Voice of America and other personnel, and with an enormous show of good spirit and I think great imagination, a proposal was made to you.

Before I talk about that I just want to say the following: Just less than 2 years ago the Wall Street Journal commented in its lead editorial on this proposal to close the Munich operation, which had been incredibly expensive—1600 people—and move it to Prague. The Journal's editorial was entitled "Radio Free Europe/Radio Liberty, Rest in Peace." And at the end of the editorial the writer said only time will tell what will happen to the Prague-based RFE/RL, whether it will live up to the reputation of its predecessor. We hope so for the sake of the audiences it served, but we lament that its mission was so abruptly and inappropriately halted.

In less than 2 years, I think we have evidence that this move has, thanks in large measure to the leadership of Kevin Klose, really invigorated this institution. Four hundred people now in Prague, with the use of digital technology—something we must bring to the Voice of America. Digital technology has made a dramatic cut in our expenses. We need the investment resources and we need to work with our unions to make this change possible everyplace. But it just made a significant change.

Far more important—far more important—is the respect that Radio Free Europe/Radio Liberty has gained for its understanding of a new time, taking on a new mission, moving into the Internet wisely, broadening its sense of what it is trying to do in terms of training and facilitation of the growth of indigenous broadcasters. I simply want to say to Klose and to the people at the Voice of America who have worked together to make this move possible that they have already, I think, been vindicated in a dramatic reinvention and transformation.

I would like to say, Mr. Chairman, in response to your question, that I think the best way to address this, if this committee wishes to, is perhaps to look at the original legislation submitted to the Senate in June 1993. That was 3 months after I began my responsibilities. I brought along copies of that bill. History passes us all by so quickly with all the changes that take place. But this is the bill, this proposal was signed by Chairman Mica of the Board of International Broadcasting and myself. It was discussed for a number of weeks. It was the administration's proposal for the way in which this new and rather complicated arrangement might proceed.

Now, I am not suggesting that administration proposals are the first and last word. Indeed, our system works well because of the accountability of the Congress and the administration to each other. In this particular case, however, I would point out that what was proposed—carefully thought out and with very wide participation—was that the direction and supervision of broadcasting should be the task of the Director of International Broadcasting, accountable to the board, and accountable to the Director of USIA. This is a position that Mr. Klose, I am delighted to say, is about to assume.

That was the proposal that was made in the legislation that was submitted to you, and this is the description of the Broadcasting Board of Governors, I quote: "To provide guidance and oversight to the International Broadcasting Bureau, which is authorized to administer Radio Free Europe/Radio Liberty, Voice of America, the Office of Cuba Broadcasting, Asia Democracy Radio, and such serv-

ices of Worldnet Television and Film as are determined by the board with the concurrence of the Director of USIA." The bill, adopted by the Senate after discussion and consideration, authorized the board to direct and supervise all broadcasting activities conducted pursuant to this title.

There is an ambivalence involved there between the role of USIA and the Broadcasting Board. I think it arose from the great concern, which I share, that there be some protection from intrusion on the professional status and responsibilities of the journalists in radio, but it might be at least a place to begin by looking at the proposal that came to you and was signed by the Chairman of the Board of International Broadcasting, as well as the language that was adopted by the Congress at a later point under which we now function.

Senator GRAMS. When you say direct and supervise, the BBG has the authority or oversight for all international broadcasting. Is it correct to assume, then, that you, as the senior U.S. official in charge of the overall public diplomacy effort, then have oversight of that board?

Mr. DUFFEY. No, I do not think that is the understanding at the moment. I sit on the board and we work together. I have certain responsibilities having to do with the appropriation and personnel and other matters that I believe are clear. But it is a state of ambiguity and difficulty that I think puts the board in a difficult position, and occasionally me in a difficult position.

I am not sure that a board, however large a staff they have, can administer a Government Agency. A board can be one of the bodies to which that Agency is accountable, but it is probably unfair to the board and unfair to the Director of International Broadcasting who is hired to describe the board's function as administering. I think that is something that is done day to day by the person who is hired to do the job and who has accountability.

Senator GRAMS. To follow up on that, do you believe that you have or should have authority over the activities of the BBG, or should it be an autonomous unit within USIA?

Mr. DUFFEY. I am uncomfortable responding to that without Mr. Burke's presence. I think the two of us could have some debate, I think perhaps in good faith, about the problems that are created by the ambiguity of the language. The last thing, frankly—with a job that has lots of responsibilities—that I want to fight for is more authority. I have a lot on my plate. I consider I do have budgetary and oversight supervision for many aspects of broadcasting because it is a part of USIA, and have found that the Congress and the administration both hold me accountable, as they should.

But the board also lives with this ambiguity and difficulty, and I think it is a point of stress with whoever serves as the administrator, the Director of the Broadcasting Bureau, as well as with the Director of USIA.

We can generally live with these things, and it is not the only contradiction we live with in the government. But if the committee wishes to address it, I think some guidelines might be the original way in which the proposal was made. As I say again, that, as it came to you, was signed by the Chairman of the International

Broadcasting Board, and it came out of a great deal of careful consultation over some weeks.

But it is not a constant stress and difficulty. It may create a problem more for the board than it does for me. I understand what I am being held accountable for, and will make the decisions necessary to be accountable.

Senator GRAMS. Well, there appears to be some of this gray area that you have talked about, the ambiguity. Would you recommend any changes that this committee could make or direct to the International Broadcasting Act that would try to clarify that relationship between the Director of USIA and the BBG?

Mr. DUFFEY. I think rather than making changes I would think this is in the province of the committee. My recommendation would be that the original language be examined again and perhaps the board will want to inquire about the reasons for that language. I have stated some of them, but we could provide you in writing other reasons, because it had very wide circulation, a very wide discussion. If the committee pursues this, I think my recommendation would be that is a place to begin.

Senator GRAMS. I know you talked about the professional status and responsibility of journalists. As I mentioned, I was in that field for a number of years, and I know the role and the responsibility we had. I am not sure that it carries the same 100 percent translation into this department. There are some other—as you go back to what you said Mr. Murrow said in 1963, it is to further U.S. foreign policy objectives. There is a difference there, and so again, if there is anything this committee can do, or we will be looking at that and maybe seeking information from both Mr. Klose and yourself, to maybe help erase some of this gray area and to put in some definition or lines, so we will work on that.

Dr. Duffey, also the Foreign Relations Committee will soon be considering other legislation, as well, to streamline our foreign affairs agencies and reduce duplication of services, again an important area. As we continue that process, we will be looking to steps, if any, that the USIA has undertaken to eliminate such duplication. In that regard, could you explain why USIA has had an Office of Congressional Affairs, yet the Broadcasting Board of Governors, the BBG, which exists within USIA, also has its own separate congressional affairs officer?

Mr. DUFFEY. The Broadcasting Board of Governors has the authority under the legislation to create such staff as they deem necessary, and so they have created a staff that addresses congressional relations, budget matters, and other matters, at the direction of the board.

Senator GRAMS. They have the authority, but is it streamlining the efforts or is it duplicating some of the services?

Mr. DUFFEY. Well, I think you would get different views on that. Obviously there is some duplication involved, but I am sure members of the board would feel that given the definition of their responsibility to administer the Agency, this is appropriate. It does create some duplications. These, I think, are now sort of off limits for the Director to address. We have other duplications that we are still trying to address in personnel offices and others that I think we have to deal with in the next year or so. This has now been de-

clared, I think, simply by the understanding of the legislation, off limits for such examination.

Senator GRAMS. To move on a little bit further, does it also make sense for both the BBG and the Voice of America to have their own budget officers? Again, USIA already has an Office of the Comptroller, which is basically in charge of the Agency's overall budget.

Mr. DUFFEY. Broadcasting activities here are about a third of the Agency's budget. A consolidated budget office that works together where people are assigned the broadcasting responsibility, I think, is one way this could be organized, rather than having a separate office. Our office at USIA assumes and will continue to exercise the priority role, because we are the ones who are held directly accountable by the Congress and the administration. It could be organized as it is now, or it could be organized with specific functions.

Part of what we are trying to do here is to—and I think we have been partially successful—is to eliminate so much of the duplication in engineering, transmitters, all which existed earlier between RFE/RL and the Voice of America. I think that there has been enormous good cooperation in that regard, and the board has worked hard for that.

I think we all recognize that we have not achieved the consolidation that we proposed, and we will continue to work toward that. I recently submitted a memo to the board with respect to other things I think we can do, and we have yet to fulfill the provisions that were incorporated in a proposal we made about true consolidation. We need to look carefully at the areas where that is not necessarily productive, but I think we have yet to achieve that.

Senator GRAMS. Not to belabor the point, but looking at another example, does it make sense for the BBG to have its own legal counsel when USIA has an entire legal staff with 16 attorneys? Does that not inevitably lead to, again, duplication of effort?

Mr. DUFFEY. It may lead to duplication of effort. I am sure members of the board could also provide a rationale for why the decision was necessary from their point of view, given the way the legislation now reads.

Senator GRAMS. Mr. Klose, any comments before we move on to other areas of this?

Mr. KLOSE. Mr. Chairman, I would only—from the broadcasting perspective of Radio Free Europe, which is where I would like to speak from, our concern is, and I think this is probably reflected in the concerns of the other broadcast entities, are the issues of fire walls which ensure the very areas that you were speaking of yourself and which you know from your professional career as a journalist are extremely important, which is that there be a sense of independence, both symbolic and real, of the Voice of America's charter and the unique nature of the grantee organizations, RFE/RL, RFA, and the slightly different provisions that have been taken in the creation of the Office of Cuban Broadcasting, are all efforts to address that in different and unique ways.

I believe that the broadcast mission is enhanced by that, and as a person who reported to the Board of Directors of RFE/RL, I felt very comfortable knowing that it was a corporate board that I was speaking to, and that it had a natural history of independence all

by itself in addition to the relationship it had to the Federal entities.

Mr. DUFFEY. I would like to underscore that, Mr. Chairman. The principal role of the board as we proposed it initially and its function even now is to be a protector of the professional status of broadcasting. I think that, even with the VOA charter, which now would extend to the Broadcasting Bureau, it is still necessary for the board to take that responsibility. However this committee decides at the end to adjust this legislation, I assume that that role would be once again affirmed. I certainly believe it is an important role.

Senator GRAMS. Not to cast any aspersion on the activities of the international broadcasting and anything that has been done in the past, but I know even the media in this country is coming under scrutiny for its reporting practices and biases or et cetera. The old quote is if the media is watching society, who is watching the media? They are not, I do not think, unaccountable for what they are doing, and I just want to prevail that oversight will be just who is watching and who is going to be responsible if and when questions arise.

Let me move on to some other areas. Again, when other members of the committee return, and I expect Senator Biden to be here as well, he may have some further questions in this area, or comments. But let us talk more about the direction or the mission of USIA. In the 1990's there have been two major events that I assume have had a profound impact on USIA's mission and its basic operations for its efforts to carry out public diplomacy. The first, of course, was the fall of the Berlin Wall and the end of the cold war. The second would be the ongoing technology explosion that you have all talked about so far this morning that has led to greater worldwide access to information than ever before.

Could you explain how USIA has restructured, in the last couple of years, its operations? And I know you have touched on this, but just more detail to adapt to the post-cold war environment, and what has been the impact of these changes in terms of the USIA's focus on various regions?

Mr. DUFFEY. Let me say first of all that 4 years ago we made a decision to end the publication of magazines. For 40 years, USIA had published magazines that were circulated around the world. It took about 9 months to get the copy. There was an extraordinarily competent professional team here in Washington. The magazines were sort of real show pieces; they had wonderful photography, and articles about American life. While it was a bit traumatic to make a decision to end them, I think everyone would agree now that in a time when magazines circulate freely in almost every part of the world, and there is need for shorter term communications, that that was a wise decision.

Many of the men and women who earlier edited those magazines have learned now to design home pages, to produce material for publication, what we call electronic journals, which we do not send around the world because we think people are going to read them via the Internet on a computer screen. We have a broader audience of people who are curious, but the main reason is to give our posts very quickly all the formatting they need to download and publish

in place magazines and journals and fresh information about developments in American life or American policy.

Then we abandoned the practice of producing and sending large exhibits around the world, and we now work with other agencies and organizations to facilitate their exhibits, occasionally to work with them on design and planning, but we are not in that business any longer.

We have integrated our support for arts and cultural activity—from a very fine office of 24 people with an admirable reputation that was administering a budget of about $3 million—into all our programs. We have a much more efficient operation that also recognizes that there are many parts of the world now where the commercial exchange of art and culture needs to be perhaps supplemented or encouraged, but does not require the kind of funding it did.

It was important that our Embassy in India recently brought the Paul Taylor dancers there for an anniversary. We got terrific press, but I am proud to say that no Government money went into that. It was done by the corporations that have an interest in that country, and they essentially got the credit. But USIA's role was absolutely vital. Our officers—significantly more than in the past—are learning to be entrepreneurs with the private sector and to work to facilitate the many things that are happening.

We dismantled the Bureau of Policy and Programs and created a new Bureau of Information which was 30 percent smaller. Mr. Fulton is here now. I would be delighted to have some members of the committee come down to learn more about that bureau. As one example of the type of work this bureau does, take China, where articles or issues of debate about the United States and its intentions are viewed by the younger generation in China as hostile and that we are trying to restrain development of China. We pride ourselves in being able to turn around in just a few days and translate a relevant article that is published here, and have it back at the post where the men and women working at the post can get it into the hands of journalists or others.

The human element, the man or woman, the team at the post who have relationships with opinion leaders, with younger people being educated for roles of leadership, are an indispensable element in this. We will never substitute that with electronic communication. But we can make their jobs easier. We can serve them better.

Another thing you would see, however, if you came to visit Mr. Fulton, are two floors of USIA in which there are no longer individual offices, private secretaries, and deputies, where men and women work together on teams, in what I call the architecture of reinvention. This is something fairly new to the Government. Frankly, it is almost old hat now at General Motors and most progressive American corporations. But it represents our effort to take out layers of hierarchy and to create a new atmosphere or new work culture.

There are a significant number of those changes that have taken place. Other parts of the Bureau are looking at how they may apply to their future. But without that we could not have worked

our way through the 33 percent reduction in real dollars and about 30 percent reduction in staff.

Senator GRAMS. You made a mention of shortened term from publishing to broadcasting. CNN often reports on events before the U.S. Government even knows about them, and information can be transmitted instantly worldwide through the Internet, so when you talk about shortened term, how has this information revolution affected your operations? Again, I think what you have mentioned to some of the examples such as the publishing——

Mr. DUFFEY. Well, let me say first of all, this revolution is not a complete blessing. First, let us recognize we have this technology which is really the engine now of U.S. economic revival. It is a most entrepreneurial, capitalistic explosion; it is dramatically affecting our imports, our exports. We have it because of the wise planning that went on by the Department of Defense and others during the 1980's when we were trying to find a method of communication that would be secure in the event of major attacks. So, in a sense we developed it out of sense of need, and now it has blossomed.

But it frankly, as we now know, is a tool for communication and rallying of people for all kinds of purposes. The terrorists in Peru have a fine home page. You can see them talking about their message across the world, as the rebels and the Chiapas have. On the one hand, the young people in Belgrade who have been conducting, I think, the very effective demonstrations in the streets, have also made extraordinarily effective use of the Internet to communicate with networks. There must be five languages, the last time I looked at it.

The young man who came over to talk about it recently said they were told that perhaps this was too sophisticated for them. He said I got the sense the rest of the world thought we should be using jungle drums. But they have been extraordinarily effective in building a large network of communication.

We also know the militia groups in the United States use this as a form of communication. I think many Americans are getting information, making decisions about their lives with new information, in terms of health and other things that are very liberating. I suppose the generation of most of us, at least on this side of the table here, caught up with this very late. We have not been raised with this, as has a large part of America for whom it is just sort of second nature.

We have moved early and quite boldly, and I think it has enabled us to do more, to do it more effectively and more rapidly than we would have been able to.

We are also looking at the problems that will emerge.

Let me just tell you one story. I had difficulty getting my colleagues at the State Department to understand the significance of this. One of my colleagues every morning looks at *The New York Times* web page, and they have a kind of forum. One morning about a year ago he found an incredibly crude attack. It seems to me it was on the Chinese or on the Taiwanese. It was signed by Winston Lord.

I sent over to Mr. Lord a copy of what had appeared that morning, and he called back immediately and we went to work to do a

correction and make it clear that this kind of thing can happen on the internet.

So, we need to be vigilant about it. It has changed our work dramatically, because it has helped us understand new audiences.

I would just close with one more example. Whereas we used to have a situation where people would wander or come deliberately into our centers for information, our libraries and others, we are far less involved today in the investment in property, because this material can just be available to the inquirer who knows about it. Young people in schools and colleges and others, journalists, can go directly to this information. It simply reaches a much wider audience.

The CD ROM you have on American higher education and opportunities, explaining it to foreign students. It is a $7 billion industry in the United States, and it makes a great difference to our schools, many of them, to have these students from overseas, and I hope we will continue to be the leading place where students will come to study.

I do not believe anything else we have ever done has been as influential around the world as the number of people who come here to study and then become leaders in their countries.

This little CD-ROM can now provide information about study in the U.S. to inquirers in their colleges, their high schools. It used to be they had to come directly to the USIA center, and many still do—I have seen the lines of young people waiting—but it is far more effective as a supplement to have this information available in other posts, other areas.

I think it is important that we have taken some of our library collections and given them to universities, particularly in Western Europe, where we have closed our traditional libraries. We are not trying today to encounter in most societies of the world the dissidents, the people whose aim it is to disrupt their society. We are trying to encounter the leadership, those who are going to shape the future, and we must encounter them in their schools, their public areas. They are not going to come to our centers, so this communication has strengthened our ability to do that.

Senator GRAMS. I would like to go back again to a question dealing with some of the congressional concerns about the extent to which USIA's mission of public diplomacy reflects the official foreign policies of the U.S. Government. The question I would like to ask is, what do you believe should be USIA's role in spreading the American viewpoint on world affairs? Is it supposed to be to present a more neutral perspective, or should it be able to advocate U.S. policies in an effort to directly promote American national interests?

Dr. DUFFEY. Advocacy of the U.S. policy is the way we understand the work of USIA. Now, a particular problem that you have referred to earlier arises with respect to broadcasting. Broadcasting will only have credibility if it does not appear to be or is not, in fact, sort of a propaganda operation. I, however, still believe that broadcasting has a responsibility to convey amply U.S. positions and U.S. policy, so we come down to the question of separating reporting of the news and other matters from the presentation of U.S. policy pursuit of U.S. interests.

That is a delicate call. I would be far happier if our broadcasting did that in more than just the editorials. I would be happier if it did it in more programming that was directed to that end, and explained. There is—it is a difficult problem for some of our journalists, but I sometimes think that we do not give ample attention to the third part of the Voice of America charter which describes this as one responsibility.

There was resistance, significant resistance initially to working with the Department of Justice and the worldwide effort to publicize terrorists and others from our broadcasters, but they wisely I think found ways to adjust, and that is now something we are very proud of.

We need to find ways to clearly distinguish what we are doing. I think that the reporting of the news must be dealt with with a kind of objectivity and neutrality, but we could stand more genuine advocacy with every tool we have for U.S. interests, because that, as Edward R. Murrow says, that is the justification for using the public's money.

Senator GRAMS. You mentioned editorials, Dr. Duffey and Mr. Klose. The Office of Policy in the International Broadcasting Bureau produces editorials for broadcast for all the VOA's language services, and the editorials are identified as "expressing the policies of the U.S. Government," and that is in order to distinguish them from other VOA programming.

Many of the editorials have played key roles in the past in influencing events overseas, and I think you all will recall the famous 1990 editorial titled, No More Secret Police, which sparked an outburst from Saddam Hussein in that case. I have heard that some individuals at USIA are questioning whether or not VOA should continue broadcasting these editorials. Maybe you would like to comment. What are your views on that concern or question?

Dr. DUFFEY. Well, let me make a comment, and Mr. Klose, who has not had to face this yet, will I am sure be looking at it.

I do not think there is much questioning of the editorials. I think the question arises as to whether that fully meets the responsibility of that part of our expectation that American policy would be explained. I think that perhaps the resistance is to a little more ample commentary in some programs that might contribute to a better understanding of American policy.

I can understand resistance to this because of the historical feelings that come out of the cold war, and all of the tensions that were involved in addressing the complicated task we have there.

The Broadcasting Board of Governors to its great credit has been discussing this, and continues to discuss it.

I do not think that the editorials should be used as a way of saying, well, that discharges our responsibility. We have nothing more to do by way of accountability. I think we could have more programming labeled for what it is and directed at trying to explain certain aspects of U.S. policy.

There will always be tension over this role. Senator Biden has pointed out, I think wisely, that to be a broadcaster and to be a Government employee is an inherent tension.

But in these days when there is more broadcasting, and when we do have quite specific objectives explaining ourselves to the world,

as I said earlier, which I think we must not take for granted. I think this is a major problem in Western Europe with the new generation, understanding why America is pursuing certain policies, why we take the position we take with regard to Iran, which has not received a lot of sympathy from our allies, but which will persist.

We need to examine this relationship between advocacy and news reporting and work out a better solution.

Senator GRAMS. So you think it is important, extremely important for the U.S. Government to use VOA to present very clear statements on our Government policy.

Dr. DUFFEY. Well, it is important to every instrument in which we invest to see this as a major responsibility.

I can tell you that USIA advocacy is what this institution is about. Oftentimes, explaining, as I have said, is the way we go about it. Quite often we may report debates that go on in the United States, and we should make it clear that our spokesmen do not always speak for the majority point of view.

We have been sending a number of people who have worked in both administrations in the White House and the Government to China to explain to a younger generation there that the presidents of the United States do not make foreign policy arbitrarily, that it is a discussion, that it involves many, many elements in our society. I think it is important to get that message across.

It will be fatal when the Hong Kong transition takes place if the Chinese do not understand the reaction of citizens and others in the United States to even more flagrant violations of human rights. That is a sort of advocacy in the sense of explaining ourselves, but I see advocacy as the central role of everything we do.

Senator GRAMS. Mr. Klose, any comments to add?

Mr. KLOSE. Mr. Chairman, this rubicon I have not crossed yet, and I look forward to a vigorous discussion on these issues.

My experience of news-gathering and dissemination is that it can often be a contact sport when it comes to issues of what actually ought to be said and how it is said. People's reputations can rise or fall on exactly, even, intonation of the delivery of a sentence, or paragraph spoken or done by video, so it is a very, very sensitive area, and it is one that I know with Evelyn Lieberman at the Voice of America and our other colleagues, that we will be able to engage in a full embrace of this issue.

Mr. Chairman, if I may, I wanted to make a comment on your earlier question about the modernization issues, if that is all right.

Senator GRAMS. That is fine. Go ahead.

Mr. KLOSE. I would like to say that in terms of the broadcast entities with regard to stepping forward into this interactive world, the reality is that the broadcast entities moved very quickly when the world started to change, especially in Central Europe and further East in the former Soviet Union, when jamming stopped and the wall came down.

Both the Voice of America and the radios RFE-RL quickly moved in the region. VOA was doing that in its own other broadcast areas anyway. There is an active affiliates operation that we have now, about 1200 affiliates worldwide. These are local radio and television stations which take down broadcasting segments, or in some

cases hours at a time off satellites and rebroadcast this in AM/FM to their local audiences. It is a whole new way of reaching different kinds of audiences.

At the same time, Mr. Chairman, I would emphasize that in the world today there remain 600 million short-wave sets, receivers, and short-wave is a major means of reaching all kinds of not only remote audiences but audiences who, for example, in the case of the Albanian situation right now, we have turned to short wave not as a back-up but as the main way to get there.

These assets of the U.S. Government which are worldwide, in the worldwide transmission system are crucial and very important strategic assets going forward into the 21st Century, and as we move forward into the interactive internet age, we want to make sure that these stay robust, that we have the surge capacity in place when we need it.

Senator GRAMS. Moving on to other areas, we heard your testimony, your talk earlier this morning about how important it is to have students exposed to American policy. Although USIA has had the authority to perform oversight for all Government exchanges, the duplication and overlap of these programs among Federal Agencies still remains a serious problem, or a concern.

The most recent USIA report shows that 38 Departments and Agencies spend more than $1.6 billion every year on foreign exchange and training programs. Now, by comparison, as you have said here, the USIA's entire fiscal 1998 budget request is just over $1 billion.

The administration is requesting right now $565,000 to establish an office within USIA that would coordinate exchange programs among the Agencies. Under that, will any of the other Agencies be required to justify their exchange programs, in addition to just submitting the data on them? What is this office going to be looking for and trying to coordinate or enforce?

Dr. DUFFEY. Mr. Loiello, who is here today, has worked closely first of all with Members of Congress who have expressed this concern over the last several years, and with the Office of Management and Budget.

It is my understanding, and Jack may want to comment on this, that there will be representatives of other Agencies on this team that will try to gather the information and sort it and make it available, but that a working group from all the Agencies involved will examine the duplications and clarify the justification for many of the programs.

I think the intent of Congress and the Office of Management and Budget, the administration, is that programs not continue just because we have had them there for 20 years. Maybe Jack wants to comment on the process that will ensue now if the Congress responds to this request.

Dr. LOIELLO. Thank you.

Senator GRAMS. Jack, would you like to slide up and take a microphone, so it will be a little easier to hold you accountable for what you say?

Dr. LOIELLO. Yes, Mr. Chairman. First of all, as the director has said, this initiative builds on what this administration has been doing through the NPR process, but it also takes a page from

Chairman Helms' book on this whole question of interagency exchange coordination.

What is looked at here is the creation of such an office, but it is simply being placed in the United States Information Agency.

The interagency working group that is called for by the executive order, and the legislation which has been submitted to the Congress makes it very, very clear that this is an effort of all the Agencies of Government involved in exchanges and training.

Now, the interagency working group itself mentions five other Agencies, specifically State, Justice, Education, AID, and Defense, and also representatives from the Office of Management and Budget and the National Security Council and such other Agencies among those 35 to 38 that you have mentioned that are appropriate.

We have found already that there have been a number of Agencies that have expressed a desire to participate since this draft legislation has been circulated around the other Agencies.

This iniative builds on legislation which, of course, had already given the Bureau of Educational Cultural Affairs in the United States Information Agency some authority to collect data and publish an annual report on exchanges and training government wide. That is the report that you just made reference to which lists the 39 Agencies involved.

This initiative gives it much more authority because of the $565,000, for example, that has been requested to create five FTE's, but we do not expect these to all be from The United States Information Agency. We expect these to be from other involved Agencies as well.

Two responsibilities that are specifically assigned for the working group in setting up this office, the office which will serve as its secretariat, one is an annual—well, first of all, within 1 year a report which outlines a strategy of cooperation and looks at the issues of duplication and provides that to the President of the United States through the Director of the United States Information Agency.

Then, an annual assessment of that strategy each year. But a second mandate, as the legislation proposed would put it, is that in 2 years the working group must recommend to the President, through the Director of the United States Information Agency, a series of bench marking and performance measures looking specifically at the question of duplication, and this is what is principally new, I think, in the legislation.

It also is to lay out a series of strategies for the engagement of the private sector in a complementary way in the whole area of exchanges and international training.

Again, if I may say so, our own Agency in this particular area has set the standard for leveraging of private sector funds and NGO funds.

So, this is a very serious effort. I think it is responsive first of all to what we have been trying to do through the NPR process within this administration, but second responsive to the Congress as well.

Dr. DUFFEY. The only thing I would add is the question of duplication is not where we would stop. We will look at the question of purpose and effectiveness in light of the new budgeting process.

Senator GRAMS. You mentioned, will recommend, I think you said benchmarks and performance markers, I think.

Dr. LOIELLO. Yes, sir.

Senator GRAMS. In that regard, will this new office have a mandate, or will it have the authority to see that those directives or recommendations are carried out? Are you given that type of authority? Have you identified, like Dr. Duffey said, the purpose to carry out these recommendations?

Dr. LOIELLO. That authority is not specifically addressed, Mr. Chairman, but it is very, very clear from the fact, first of all, that this proposal comes from the Office of Management and Budget as part of our pass-back. The very fact that these recommendations are being made to the President, the character of the office itself, as I have already described it, which is not just USIA-centered, and the fact of the participation of these other Agencies underscores its authority.

Senator GRAMS. Will you have any authority to deny funding for exchanges that overlap or that fail to demonstrate adequate benefits?

Dr. DUFFEY. Only the Congress has that authority, and the information will be available.

Senator GRAMS. So you can make these recommendations to us, and then Congress can then react?

Dr. DUFFEY. Well, I think we will first of all make the information available. Even though USIA has been charged with compiling this information every year, it has been extraordinarily difficult to get Agencies to cooperate from time to time, and I think Mr. Loiello has done a very good job in the last 2 years of getting a much more comprehensive report, but it still lacks information from some Agencies. We will provide that, and I think—I hope the working group will also be prepared to provide some recommendations. I am sure that OMB will.

Senator GRAMS. And other Agencies, as you mentioned, will be involved. Are there any ideas or plans to have them pay part of this budget, or to contribute to the efforts?

Dr. LOIELLO. Well, like I said, the proposal for this initiative came back in our pass-back from the Office of Management and Budget. We hope, in a sense of collegiality, that if this is an effective mechanism, obviously that it will extend to the budgeting process in future years.

Senator GRAMS. The issue of duplication in exchange programs always comes up for USIA, because it is part of your signature program, you could say, but since USIA's annual budget for exchange programs is under $200 million, it is clear that your Agency does not have administrative control over the vast majority of exchange programs run by the U.S. Government.

The Department of Energy alone has a $100 million budget for international exchange and training programs.

As you have gained familiarity in recent years with the scope of the exchange programs throughout the Government, are you concerned that other Agencies' exchange programs do not get the scrutiny and the oversight that they deserve, especially compared to USIA?

Dr. DUFFEY. I think the other programs have a history. First of all, I think it to be a compliment to USIA's long-term strategy that exchange has been recognized as in the end one of the most effective instruments for our work in the international community, and they have blossomed and increased I think precisely because they are effective in training and exposure.

I was involved in an effort like this 20 years ago with arts Agencies in the United States and the chairman of the Federal Council on the Arts and Humanities. When we began, we had a number of organizations whose programs duplicated the number getting into international affairs, because every Agency wants to have an international side to its work. Just the making available of the information and the coming and working together led us to the point where we could make some assignments, establish some guidelines for Agencies.

I hope that will be the outcome here. Then that gives the Congress at least one benchmark to look at when they need to make decisions.

Senator GRAMS. I only have one more question in this area that I would like to complete before I recognize Senator Biden, who just joined us, but there has also been a report—I think the USIA report—that has identified exchange programs that total at least $600 million from private sector agencies or foreign governments.

In that respect, will the USIA's new office also tackle the issue of duplication there, in other words, try and coordinate not only among U.S. Government Agencies but also look at how you can best coordinate using private sector and other exchange type programs as well? Is there going to be a combined effort in this area?

Dr. DUFFEY. Our effort with the exchange programs, again with the Fulbright program is to move closer and closer to the time where none of these programs will simply be funded by the U.S. Government.

Last week, when President Frei visited here from Chile, he announced a participation of $1 million a year from the Chilean Government in Fulbright program. The Secretary of State signed that agreement. I think as I stood there waiting for it to be signed Jack informed me that Venezuela now has a third of a million dollars prepared to participate. That has begun to happen in other parts of the world.

I believe that even in the countries that are developing countries, what we used to call Third World countries, there is a role that governments and institutions can play at contributing in these programs. Sometimes it may be tuition scholarships and resident support for our students who want to go and study in those countries, and there are an increasing number who do. We would like to move in the educational exchanges at least, as rapidly as we can, to move these programs from strictly U.S.-funded programs to where there is some appropriate measure of support from the other governments.

Senator GRAMS. All right. I would just like to recognize two other Senators who have joined us, Senator Biden and Senator Feingold. Thank you for being here. We have limited ourselves to just 30 seconds in opening statements.

Senator BIDEN. That is OK. I am against whatever Duffey is for. Will that do it?

Senator GRAMS. That will do it.

Senator BIDEN. And I mean it.

Senator GRAMS. I would like to offer you an opportunity for an opening statement.

Senator BIDEN. Joe Duffey is the only man I ever made a deal with who honestly told me that when you make a deal, you have a deal. If it changes, you do not like it, you just say you changed. You learned that from Bailey you told me, Joe, and you are practicing it very well.

I understand—let me make clear, last week I indicated I am willing to reconsider any reorganization proposal. I am presently working with the chairman of the committee in doing just that, as long as we provide the resources commensurate with our international responsibilities to ensure that important functions are properly protected.

Although I have an open mind about the overall structure of the reorganization, my mind is already made when it comes to one issue. I would oppose any restructuring that would diminish the powers of the Broadcasting Board of Governors or that folds the broadcasting Agencies into the Department of State.

If anything, Joe, I have a solution for you. We will just make them independent, independent of you and independent of everybody, independent of the State Department as well.

I just want to make it clear that there has been a lot of talk about how my friend Russ Feingold and I had disagreements on this, and we did have some disagreements on this, and that I engaged in or threatened to engage in the only filibuster that I have ever threatened to do in 24 years as a Senator, and that is true, but it was not about the power of the board. It was not about the power of the board. That was not the basis of our disagreement as relating to the power of the board.

As a matter of fact, the President's original draft of this legislation that he sent up to us on June 15, 1993, he stated, "We will create a new and independent board of Governors that will replace and perform similar tasks as the Board of International Broadcasting."

It was new and independent. I know that bothers you, Joe, the independent part, but that is what it was intended to be, and I am amazed that we are still relitigating this battle, when I thought we all had an agreement that we all sat down and settled this issue, but in terms of reorganization, Mr. Chairman, I think we should and will, and I think we will do it in the next 3 to 6 months, come up with a reorganization plan for our whole foreign policy apparatus. At least, that is my hope and expectation that that will occur.

I have an open mind as to how we do that in terms of what we are going to do relative to broadcasting, and relative to USIA generally.

I have one question, Mr. Chairman. I am interested in how decisions to allocate resources, both in terms of funds and personnel to the USIS posts are made. Director Duffey, what is your system for allocating these resources, funds as well as personnel? Do you have

a methodology? Do you have a system you go through? How do you go about it? What is involved in the decisionmaking process?

Dr. DUFFEY. We have a process and, of course, within the State Department there is a process involving the Ambassador and his concurrence with any plan that he receives from, say, the USIA, so at the end of the process it becomes a dialog and a negotiation in that respect.

Senator BIDEN. Between you and the Ambassador?

Dr. DUFFEY. No, between the Secretary—well, it begins between the Ambassador and me, and generally, if we can settle the matter, as we most often do. If not, it goes to the Secretary. There have not been any cases during the last 4 years in which the Secretary did not accept the recommendation.

First of all, we have, as you recognized, faced a serious decline in available officers and budgets, so we have had to make those reductions.

We begin with, first of all, not a permanent grid but kind of a template that is revised every year, looking at the size of nations, the size of U.S. relationship, the existence there of communication and other facilities and U.S. presence.

Senator BIDEN. Would you be willing to make that available to the committee?

Dr. DUFFEY. Certainly.

Senator BIDEN. I would appreciate that.

[The following material was subsequently supplied for the hearing record by Mr. Duffey.]

RESOURCE ALLOCATION GROUP (RAG) SYSTEM

The Resource Allocation Group (RAG) system is USIA's framework for relating country-specific Agency resources with U.S. national interests and policy objectives. It raises resource issues for discussion and review by the Area Offices and the Resource Management Committee and for final decision by the Director. It is designed to help establish resource priorities and to identify resource anomalies.

RAG rankings are based on factors which indicate the level of U.S. interests in each country and the potential for USIA programs to affect U.S. interests. These factors include statistics derived from common reference sources, such as population, gross national product, bilateral trade, U.S. investment, U.S. assistance, U.S. mission size, and media densities. Initial rankings based on the factors are analyzed by the Area Offices and adjusted to reflect current policy considerations.

RAG rankings are reviewed annually. This review normally takes place each spring, in sequence with Agency planning and budget cycles.

Dr. DUFFEY. That is called a resource allocation grid.

Then, however, we need to bring other questions. Are there anticipated problems or tensions in the area that should be taken into consideration and are there specific objectives that must be taken into effect?

These days we are also looking, Senator Biden, at can we effectively or sometimes more effectively do the work by approaching this with a different structural organization, or working in regions and areas.

Senator BIDEN. Can you give me an example?

Dr. DUFFEY. Well, let us take the Caribbean. We have Ambassadors and staffs on every island and country. We are asking ourselves whether we cannot do what other countries do and have somebody accredited to two or three places. It is regrettable that we need to do that, but if we have a circuit rider we can work stra-

tegically with the posts looking at a common program for the embassy and sharing resources so that speakers or programs are arranged, they are not just arranged for one country.

Senator BIDEN. You obviously have had—and I will yield, Mr. Chairman, after this comment or question. You obviously have had to deal with the constraints of the budget and budget cuts; but I am a little confused. The resources allocated to Western Europe versus the resources allocated to Eastern Europe and the NIS seem to be a little out of whack.

You have 93 American officers covering 22 countries in Western Europe, while in Eastern Europe and the NIS you have 73 covering 25 countries, and moreover, you reduced the presence in the East between fiscal 1996 and 1997 from 81 to 74.

Now, I recognize the budget cuts, and I do understand that. We have all been doing that with our staffs, with everything, and we should. But what I am confused about is, it would seem to me that if there is any time in our history when our presence and the functions that you provide are most useful in Eastern Europe and the NIS, it is now, and where they are least needed is in Western Europe. Can you explain to me what I am missing here?

Dr. DUFFEY. Well, some of this relates to the burden of my opening statement. Let us begin with Western Europe. You recall that we were given very few new resources at the turn of the decade when we needed to staff the new countries in the former Soviet Union. We had to find some place, as the State Department did, from which to take the resources we had available to open these new posts.

Since 1995, we have cut funding in Western Europe by 24 percent. We have closed four posts and cut 139 positions.

One can say on the one hand, look, it is a place with a lot of communication. There is a lot of American presence. It troubles me a great deal that we have made those cuts in Western Europe.

Senator BIDEN. Why?

Dr. DUFFEY. Because I think that—I will go back to Senator Dole's comment in the campaign after our recent experience in Iraq, when he said, where are our allies? With new generations we have got to work at explaining why we have the policies we have toward Iran, as I said a few moments ago, why the policies toward Cuba are our position and that we intend to stick by those policies. We must show our resolve, and we must explain that. We simply cannot, I think, change generations——

Senator BIDEN. Does that compare in your view to the needs that exist in Eastern Europe and what is going on now to explain to the Poles or to the Czechs——

Dr. DUFFEY. Let me explain a little bit about that. We are moving into Eastern Europe at a time when, unlike the 45 years of the cold war, all we did was sort of snap our fingers and the resources were there, 45 years of growth. We had to confront new ways to do our business.

First of all, we have gotten away from the edifice complex. We are not making very large investments in property and buildings. We think the resources we have can much better be invested in programs and people.

As I said earlier, we are not in those countries now seeking to contact the dissidents. We are seeking to establish relationships with the men and women who are going to build the future, and they are not going to wander down the street to a U.S. center. They are in a university. They are doing other things.

Senator BIDEN. Why the hell would they wander down the street to the U.S. center in France, Germany, England, or any place else?

Dr. DUFFEY. I am referring to the old days. Actually, of course, in Western Europe those libraries and centers as you know have regrettably been closed even earlier. That is where we got some of the resources.

What I am saying is——

Senator BIDEN. I am talking about the assignment of personnel. Either I did not say it clearly, Joe, or you are avoiding the answer. Why are there more personnel assigned to fewer countries in Western Europe than there are to more countries in Eastern Europe and the NIS? That is my question. No edifice.

Dr. DUFFEY. I wish I had more resources to apply to Eastern Europe. We are understaffed there. That is why we are appealing——

Senator BIDEN. That is what you get paid for, the big decisions. Why are they in Western Europe and not in Eastern Europe?

Dr. DUFFEY. I think it has to do with tradition and momentum from the past and efforts to change. There is a professional Foreign Service——

Senator BIDEN. Bingo. I do not have any further questions.

Dr. DUFFEY. There are many institutions from the past, and we are struggling against that, but we are also being called back a bit to understanding that Western Europe is not unimportant. I think we need to work differently in Western Europe.

Senator BIDEN. Joe, if you think there are avenues in Eastern Europe and the universities, you and I should talk about the 6 million additional avenues there are in Western Europe.

Thank you, Mr. Chairman.

Senator GRAMS. Senator Feingold.

Senator FEINGOLD. Thank you, Mr. Chairman. I commend you for holding this hearing today. Since I am not a member of this subcommittee, I really appreciate your continuing the hearing so I could participate.

I also want to acknowledge the Ranking Member, Senator Biden. We had a disagreement on this issue, and I learned right there and then, and have followed the advice since then, that it is really better to be in agreement with Joe than to be in disagreement, and we have had great fun and have been tremendous allies.

Senator BIDEN. I do not think we disagree on anything else.

Senator FEINGOLD. No, but it is just better that way.

Senator GRAMS. And now you agree on that.

Senator FEINGOLD. In fact, on this issue itself I have had nothing but good feelings about the way Senator Biden and I have worked on it since that time, and I hope that continues.

I want to thank the witnesses and I want to thank the witnesses for some of the kind words about my efforts in this area. I recognize the valuable contribution that USIA makes to our foreign policy, but since the time is late, I do want to talk particularly about RFE/RL, Radio Free Europe.

I am still of a mind that many, although not all of USIA's broadcast activities are relics of another age, when our foreign policy goals and priorities look much different than they do today.

Unfortunately, as we knew from our debate several years ago, there are also many examples of fiscal abuse which have been talked about at length in the committee with regard to Radio Free Europe and Radio Liberty in the management of the activities, and many of these abuses, of course, took place in far-away places.

That is why in 1994 I introduced the consolidation legislation. My intention with that language was that these surrogate radios should figure out how to function as privately funded entities within a certain timeframe, and if that could not be achieved, then maybe it was time to put these entities out of business.

Mr. Chairman, we set that forth in legislation, and we now in March 1997. That puts us just under 3 years since the statute went into effect, and just under 3 years before the end of 1999, which is the period when the privatization is to be complete, or the time by which the privatization is to be complete.

So, we are half-way through the transition period, and I want to take just a few minutes today to take stock of where we are.

Mr. Klose, can you detail for me what the status of your efforts to privatize are?

Mr. KLOSE. Yes, sir. We thank you, Mr. Chairman and Senator Feingold. I am pleased to respond to that issue.

Late in March 1996 we established an office of development at the radios in Prague and set forth as its primary goals finding ways in the venue of Central Europe, where the broadcast services would most likely be plausibly administered, in a way, and where most plausibly we could find outside investment and private investors. That effort has gone forward.

We have in the Czech service, which previously was spun off as a separate small subcorporation of RFE/RL and became a subgrantee of the radios, the Czech service, which is called RSE, Inc., formed a joint venture with Czech National Radio. We have created a new independent public affairs network that is nationwide in the Czech Republic, in cooperation with Czech National Radio. It is called Radio–6, Radio Free Europe.

It is an international broadcaster. It includes programs supplied by the Voice of America,the BBC, Deutschewelle, German Wave. RFE-RL's support for this Czech enterprise in the past fiscal cycle has dropped from $2 million a year down to $450,000 in 1997, and we have found private means of some support, or in effect institutional support in the Czech Republic by institutional large companies, who are interested in taking, in effect their institutional advertising. We would call it program underwriting. That is perhaps the best way to describe it.

Several hundred thousand dollars has been gained that way. It is a very difficult situation, but it is an important one. This is a nonprofit venture between Czech National Radio and RFE/RL. It has a very interested and engaged audience.

If I may, Senator, I would quote from a Czech news agency report of 1 January. This is the Czech telenews agency. Czech Radio–6, Radio Free Europe, has gained a public image as a highly profes-

sional commentator of political events. Public opinion regards it as the best of all radio stations in this particular field.

We have also created an addition to the internal development office. We have a group of private advisors outside with whom I consult or have consulted as president of the radios consistently, and we are about to go forward with an initiative to a major private media company which is interested in activities essentially making investments in Europe and further East.

The Polish service of Radio Free Europe was also spun off as a separate subcorporation several years ago. We viewed these entries as Lunar landers, in effect, to put us down so they could do some experimentation in the area and find out as a test bed how you do this.

The RWE, Inc., as it is called, again a nonprofit radio corporation that is based in Poland and also has a representation, a legal entity in Washington, has created in effect a private independent network in Poland of some 30 individual radio stations that we feed via satellite 18 news feeds a day plus current affairs and current events, and this enterprise after a stubborn and consistent due diligence search for a series of investors, both Western and Polish-based, we are now about to make an initiative through, again, a large non-Polish independent media company which is interested in investments in Poland.

We believe that the Polish and the Czech entities are important to continue operating, because the media markets in the Czech Republic and in Poland are the most viable in terms of advertising dollars going in, in terms of people learning how to make money, especially in television.

Radio is in a more parlovs state, but it is at a more transition stage. We are there with these two activities.

With regard to RFE/RL itself, the large enterprise, a major function of the move from Munich to Prague was to reshape, modernize, and reinvent this enterprise so that it would have the potential for viable interests by non-Federal broadcast or media entities, and that process we believe we have been able to do successfully.

We have gone to digital. We resemble in many ways a very modern Western profit-driven radio operation, and with this outside private group of advisors we are in the process of pulling together in effect a business plan and proposal for a particular set of people who we have been talking to outside.

Senator FEINGOLD. Thank you. I appreciate the specificity of your answers with regard to the Czech operation and the Polish operation, but I want to get back to my main concern, of course, which is that the public side of this be eliminated in the appropriate timeframe in terms of the dollars.

I understood that the Czech and Polish services were going to be the first of the RFE/RL services to be made fiscally independent of U.S. support, and I of course recognize the historical significance of these two operations, but now this year, 8 years after the fall of the Berlin Wall, I would argue that they are the best candidates for privatization. These two countries are the shining examples of democratization in Eastern Europe, and Congress actually specified that the services in these two countries, which you have identified

as RSE, Inc. RWE, Inc., respectively, should be privatized soon after the passage of the Broadcasting Act.

I would like to quote from the conference report. It says, "The committee on the conference expects that the BIB and the Broadcasting Board of Governors will do everything possible within available resources to support this privatization effort. It is not anticipated that the BIB or the board will make grants to these entities after September 30, 1995."

September 1995 was about 18 months ago, and still these services which you have been discussing in some detail are receiving subsidies from RFE/RL. I do not know how to specifically characterize the level of progress toward privatization based on your answer, which I thought had a fair amount of specificity to it, but I guess I have to ask, given where you are, what is the likelihood that RFE/RL as a whole will be able to make progress in privatization to the point where you can reach the 1999 deadline which is called for in the legislation?

Mr. KLOSE. Senator, at Radio Free Europe we have understood that deadline very well. We are exercising within our competencies, we believe, due diligence on this effort. I cannot tell you as to a certainty that we are going to reach that point ahead of 31 December, 1999.

This is a very difficult situation, and most people who have engaged in efforts of privatization in that part of the world both in Central Europe and further East, where a substantial amount of our operations are based, find—you can ask any major oil company in the United States of America, looking at the massive resources available to them, for example, in Kazakhstan or in Russia or around the Caspian Basin, how difficult getting these deals done really is, and we have that issue ourselves.

What we do know is that there is intensifying interest in the international media world amongst the giant players as they continue to conglomerate, and as they continue to explore ways to reach specific segments of audiences, and as the market itself segments as to who listens to what and why.

We have had very interesting conversations. That is all I can say about them. But they are positive conversations. There is a kind of interest out there.

I would say, Senator, that one of the issues that is for real in my view, in terms of what these particular broadcast services do in terms of American presence in the region comes up against some of the commercial realities that sometimes play. There are some famous cases in recent history where, for example, one of the major global media players, in control of programming to China, took off the air the BBC World Service because the authorities in China objected to the programming.

The point here is that the Radio Free Europe/Radio Liberty and the kinds of information and flow of current affairs which they provide to millions of people in the region are the kind of asset that is there on behalf of American foreign policy. There are two worlds. There is a commercial world and then there is the world of American national security interests. That is an issue which I think is also out there.

Senator FEINGOLD. Well, I appreciate your response, again. Let me just say, I think you understand how strongly I feel about this. This was the first piece of legislation that I ever introduced as a Member of the U.S. Senate. We passed it. After a hard-fought debate in this committee, the Senate passed it. The House passed it. The President signed it. Although, certainly, we can argue about whether it was the right policy, it does call for the finalization by 1999. Although I obviously recognize there could be practical problems involved, I have always thought that was a fair amount of time to be given for this to happen. Perhaps you disagree.

I am somewhat disappointed at the amount of progress that has been made. I want to have communication with you with regard to how we can accelerate this. Because I am determined to meet that deadline. I would like to note that my office has been in touch with the State Department's Office of the Inspector General, which has responsibility for USIA as well, regarding this point. We have received assurances that part of the 1997 audit plan will include a review of RFE/RL's efforts to privatize.

But my preference, of course, is that we simply work together to meet the deadline. So, I appreciate your response, but I just want to use this opportunity, even though I am not a member of the subcommittee, to say this is one thing that we got done in the Foreign Relations Committee to save this country some money, to reduce the deficit. We ought to do all we can to finish the job in a timely manner for the taxpayers of this country.

Thank you, Mr. Chairman.

Senator GRAMS. Thank you very much, Mr. Feingold.

I know Senator Biden is going to return, but in the meantime I just have some brief questions that I would like to wrap up with and to pose to you this morning—or now, afternoon. They deal with the East-West Center and the North-South Center. USIA's budget request also includes several pass-through budgets on which, again, I would like to focus.

I realize you may not be familiar with some of the specific programmatic details of the budgets, but there are some general questions I think we should get on the table. First, the fiscal year 1998 budget request for the East-West Center has decreased, but it is only $1.8 million below the fiscal year 1997 request, even though the administration announced years ago that it was going to phase out funding for this supposedly, quote, private entity.

The East-West Center has been receiving a direct noncompetitive taxpayer subsidy for over 35 years. In just the last 10 years alone, it has received $200 million. Now, given that the East-West Center has access to private funding already and that it can compete for other Federal grants, has the administration determined exactly when it will no longer be requesting a direct subsidy for this program?

Dr. DUFFEY. We do not have a plan, Senator. I have known the East-West Center for many years. I used to sit on its board. As the importance of the relationship with China and the Pacific emerges, the center becomes more and more a rather key place for the kind of interactions that, frankly, are not going to take place under direct U.S. Government auspices. They are going to need that kind

of center that has built some confidence and respect from both sides of the Pacific.

I think the center has made significant progress in adjusting to these lower subsidies. There is certain work that I believe is very much in the national interest. Maintaining, for example, a new, younger cadre of scholars, who can teach and understand, spend their time working on the developments in China. Their role in teaching and preparing us for the future is very important. The publications there are fresh and used by all our areas of government in trying to assess this important relationship.

While I believe that the board of directors understands the intent of Congress and of the USIA to move to a relationship of significantly lower subsidy, I am not prepared at the moment to recommend at some point at which I would withdraw all support at the risk of losing some resources that I frankly do not think we can duplicate anyplace else. It is a very unique role, being established where it is and having the history it has.

So, I think I consider my job to be to try to assess those things that are in our vital interest, which I do not think, frankly, we are going to find subsidy for from the private sector, and work with the center to try to effect a kind of a transition. But I am not prepared yet to put the center on sort of a schedule that would lead to no support. Because I think we are gaining too much from it, and all the Agencies of Government. I include, by the way, Commerce and others, because it is a source of information and of meetings and of dialog that just does not take place on our shores at all.

Senator GRAMS. Well, I am sure those at the East-West Center would agree that they are important and should not be de-funded.

Dr. DUFFEY. Well, I think our perspectives are different. But I think we must continue to work them through.

Senator GRAMS. But I think you have got to look at, I think, as Senator Feingold was mentioning, trying to save the taxpayers some dollars and to streamline. When you look at the East-West Center, which is not the only access to this type of information, they have private funding. They have access to other Federal grants. So, there are some of us that feel and have worked toward completely eliminating funding for the East-West Center as well as the North-South. We will continue to do that.

But with the administration already having announced years ago that it was going to phase out the funding, I guess what we are really looking for is a time line. Is it going to have to come through congressional action and impose this time line, or is it going to be an area where they are going to finally say we are going to phase this out?

Dr. DUFFEY. Well, Mr. Silverman tells me that OMB is now indicating the year 2001 as the time line. We will ask for some clarification on that.

Senator GRAMS. All right. I will move ahead, then. I will remember that year 2001.

I also raised concerns about funding for the North-South Center 2 years ago. I was told that its direct subsidy was going to be phased out last year. That is why I say I am going to remember 2001. Because we had assurances and an agreement worked out on the floor, in the last minutes of the FY96 Appropriations Bill that

it was going to be phased out. There was going to be one more year of funding. Yet the $1.5 million in the fiscal year 1998 budget request for the North-South Center is actually $500,000 more than it was in 1997.

So, all the good intentions and all the deals and agreements that we work out and adhere to, yet here we come back and now we are not only not going to phase it out, but we are going to increase the funding for the North-South Center. So, prior to 1991, the North-South Center relied on private funding, it relied on competitive Federal grants, but since that time it has received direct subsidies totaling $40 million.

Now, given all this, can you explain why the administration is requesting any funding for this organization and why we should even continue to the year 2001 with the East-West Center? And, again, I will say, Dr. Duffey, that there will be efforts made, on my behalf and others, that we are going to try to eliminate this funding, if not before 2001, at least in the very near future. But the justification?

Dr. DUFFEY. Well, the Office of Management and Budget is now talking about the year 2000. My perspective at the moment, frankly, is not to set time lines for the following reason. Our relationship to Latin America is changing dramatically. We have very few AID and support mechanisms there, and I think that is appropriate. These nations, almost all, have become democracies and they are developing their own engines of trade and development. We can relate to them in a more mature way.

Our military presence is not as large and significant as it once was. We are increasing rather dramatically our trade relationships. We need some mechanisms that we can devote much more directly to the items we have talked about earlier here this morning—understanding information.

Now, I would be, with respect to both of these institutions, more in favor of the grant that is written with a specific purpose in mind. The Congress has not made that option available to us. We may want to go that way. I think USIA, with respect to both of these institutions, would see some needs that we would be prepared to spell out and argue for with respect to grant-making. It may be that what we ought to do with the Congress is work on a clearer understanding of what the objectives are, and not have these set as completely by the institutions and academic interests as we have in the past.

But I understand the position of the Congress, and I hope the institutions understand it as well. It is a question of moving from a blank subsidy to a directed subsidy that we could more carefully defend and that serves the interest of the United States.

Senator GRAMS. Just as I noted on North-South Center, which you have just talked about, before 1991, they did not receive this, and now, all of a sudden, they have received more and more money. With promises to phase out, they have just gotten bigger. So, it is like many other Government programs or Agencies—they take on a life of their own. All of a sudden, they become—they gain more support and more funding, and it is harder and harder to wean them. So, we think it is very important that we do take the first steps.

Another point is the National Endowment for Democracy. I think a total of $30 million is requested for this Agency, the same as it received, by the way, in 1997. There have been concerns, such as those expressed last year in the Senate Appropriations Committee report, that 65 percent of the endowment funding is provided to four core groups without any competition or competitive bidding. Moreover, these four groups are affiliated with organizations that already have significant private resources.

So, again, when we are looking at where this funding is going and the need for public funding for some of these groups, and in a noncompetitive environment, do you know if the endowment has taken any steps to address these concerns?

Dr. DUFFEY. I believe there is a representative of the endowment here. This program was created by the Congress more than 10 years ago. I admire what the NED has been able to do, confronting a level and, in fact, some reductions in funding in the last few years. Perhaps Mr. Lowe can respond to your questions.

Mr. LOWE. Senator Grams, first of all, that 65 percent figure is not correct. It is 55 percent. These core groups represent major sectors of American life—the political parties, the trade unions, the business interests. They have been a part of the endowment since the beginning. They do very, very important work. They have, as you know, as you suggested, made efforts to get funding from other sources, just as the endowment is moving in that direction as well.

Senator GRAMS. Could I have you just identify yourself for the record?

Mr. LOWE. I am sorry; I am David Lowe. I am an official with the National Endowment for Democracy.

Senator GRAMS. OK, go ahead, sir. I am sorry.

Mr. LOWE. And so that those four institutions represent, as I said, important sectors of American life. They do very important work. They have a very important track record that they can point to, in terms of party development, in terms of trade union development, in terms of working to open markets to help countries privatize their economic structures. We feel that the work that they do is very integral to the work of the endowment.

Senator GRAMS. I guess our concern or the question was that these groups have a lot of money and access to private sector funding. I guess the question is—I know it all could be spent in good areas, but to continue this funding into the future, why?

Mr. LOWE. Well, again, they do have other sources. They do leverage a tremendous number of resources in terms of the work that they do. We are looking at this. The board is very independent. They take a very careful look at this every year. We will certainly take those comments under advisement.

Senator GRAMS. All right. Thank you very much.

Mr. LOWE. Thank you.

Senator GRAMS. Just some closing comments. I understand that Senator Biden will not have time to return. But if I could just bring up a couple of other quick housekeeping issues before we close out this hearing.

I have talked to Chairman Helms, and both of us have agreed that we want to move expeditiously to mark up the State Department authorization bill, as we noted earlier in this hearing. Given

that it is already March—I guess, Dr. Duffey, I would address this question to you—can you tell me when the USIA will be able to send its proposed language for the basic legislative authorities it is requesting for fiscal year 1998?

Dr. DUFFEY. We are very close to that. It is practically there. I believe that we should be able to get it to you next week.

Senator GRAMS. OK. I appreciate that. The sooner, the better, of course. Finally, I am also going to ask unanimous consent of my colleagues that this hearing's record be kept open for 3 business days. That is for the submission of written questions by any member of the Foreign Relations Committee. I do have some other questions that I will also propose to you in writing. If we could expect to have those back also in a timely manner.

[See appendix for questions submitted by Senator Grams, along with answers subsequently received.]

Senator GRAMS. Dr. Duffey, I do not believe these written questions would be unreasonable. Of course in view of the fact that the Foreign Relations Committee, again, is preparing the authorization bill, I hope you can assure us that you will be able to respond within a week of the submission of the questions.

Dr. DUFFEY. Might I just enter into the record, Mr. Chairman—I am sorry Mr. Biden is not returning. I am not sure what deal he is referring to. I want it noted for the record that I have not come to this committee with any complaints about the Broadcasting Board of Governors. The questions are raised out of concerns from the Congress.

I have suggested that there was an agreement from all the parties in the legislation submitted. That was examined and should continue to be carefully examined.

For the record, I would also like to point out that the budget you have before you for 1998 calls for, in terms of the allocation of resources, Eastern Europe's allocation is $130.4 million. What may escape Mr. Biden's notice immediately is that we do much more radio there, where it is important. We also have significantly more exchanges.

The Western Europe budget, compared to that $130.4 million, is still $92.5 million. I quite agree with the Senator that we need to keep reexamining, and we are engaged in an intense effort to do that now, on how we use those resources in Western Europe. But we also have to acknowledge now that, where our allies are, we need to work very hard to communicate with the new generation and in changing conditions exactly what U.S. policies are and how we will respond to any number of situations that may develop in the future. I think that is very important for the pursuit of our policy objectives.

Senator GRAMS. I do not know if he will accept that. He is not here to answer. But I thank you for the explanation. It will be noted.

Also, Dr. Duffey, just again to clarify, we are hoping that you can get back the responses to our questions within a week if possible. If we could have that commitment from you, we would appreciate it.

Dr. DUFFEY. Thank you.

Senator GRAMS. Thank you very much. I appreciate your being here. The hearing now is adjourned.

[Whereupon, at 12:35 p.m., the hearing was adjourned, to reconvene at 10:05 a.m., March 12, 1997.]

SECURITY ASSISTANCE REQUEST FOR FISCAL YEAR 1998

WEDNESDAY, MARCH 12, 1997

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, EXPORT AND TRADE PROMOTION,
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Chuck Hagel (chairman of the subcommittee), presiding.

Present: Senators Hagel and Sarbanes

Senator HAGEL. The subcommittee will come to order.

Gentlemen, welcome. Today, the subcommittee will hear testimony in support of the President's fiscal year 1998 security assistance budget.

Our witnesses today are the Honorable Thomas McNamara, Assistant Secretary of State, for Political-Military Affairs, and Lieutenant General Thomas Rhame, Director of the Defense Security Assistance Agency.

The President's budget seeks $5.9 billion for a range of security assistance programs, including $3.2 billion for the Foreign Military Financing Program, $2.5 billion for the Economic Support Fund, and $50 million for the International Military Education and Training Program.

The request also includes $90 million in funding for U.S. voluntary peacekeeping programs, and $15 million to fund international non-proliferation activities.

Our Nation's security assistance programs have gone through a substantial evolution with the end of the cold war. Only a few years ago a significant portion of our security assistance was dedicated to rent payments for U.S. access to overseas military installations.

Countries that assisted America in projecting its military presence, Portugal, the Philippines, Spain, and Turkey, were major recipients of American aid. But the emergence of democracy in Eastern and Central Europe has brought with it a new focus of our security assistance, targeted at potential new NATO partners.

Hungary, Poland, and the Czech Republic, which only a few years ago poised their weapons at NATO, now seek to become part of it, and military officers in Russia and Bulgaria, who once prepared to battle U.S. troops, now train side by side with their American counterparts.

A vast majority of our security assistance during the past 2 decades has been dedicated to one region, the Middle East, where American interests and the real risk of conflict remain great, the peace process not withstanding.

In fact, the President's fiscal year 1998 request seeks to allocate 94 percent of our entire FMF budget, and 88 percent of the ESF resources to Middle East countries. There continues to be strong bipartisan support for this, which advances the cause for peace.

While its geographical focus may have shifted, the rationale for a robust security assistance budget remains. Without question, there have been instances, Zaire and Somalia come to mind, in which USA aid propped up corrupt despots during the cold war, but that has been the exception rather than the rule.

The program remains essential to assist the President in buttressing our allies, increasing military interoperability with friendly nations, generating necessary exports for American business, and helping professionalize foreign soldiers.

Mr. McNamara, General Rhame, welcome to our subcommittee. We look forward to your testimony this morning. I am going to continue on with your testimony, and with our questions.

We have colleagues coming, and I suspect by the time you are complete in your remarks, then my colleagues will join me, and if it is OK with you, I would like very much to ask for your comments, and I know neither of you are strangers to this process, and you know what the deal is.

So, with that, again, I welcome you, look forward to your testimony, and General Rhame, I would ask you to lead off this morning. Thank you.

STATEMENT OF LT. GEN. THOMAS G. RHAME, USA, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

General RHAME. Mr. Chairman, members of the committee, good morning. It is a pleasure for us to be here to testify in support of the administration's request for security assistance for 1998.

Mr. Chairman, I will keep my remarks fairly brief. I would ask that you put my formal longer statement into the record, if you would, please.

Senator HAGEL. Yes.

General RHAME. In the security assistance portion of the budget this year, as you know, we are requesting an increase over the 1997 appropriation.

We believe the programs are strong, solid, and are fully justified. Our goal of preserving Mid-East peace remains of paramount importance to us.

This year you will find we are asking for increased support for Jordan. This assistance will enable us to continue the ongoing F–16 lease program that we have working for Jordan, and strengthen this critical Mid-East peace partner.

Another of our critical challenges is to continue to support the building of our new security relationships in Europe. As a result of the requirements of preparing the new democracies in this region and the former Soviet Union for full participation in our Partnership for Peace initiative, and in some cases, actual NATO membership, these requirements account for a significant amount of the

requested increase, which you see in the Partnership for Peace account, or as we call it, the Warsaw Initiative.

Mr. Chairman, we are also requesting money for programs in the budget this year to train the forces of friendly nations for peacekeeping and humanitarian assistance duties, which will thus reduce, hopefully, the need to commit American troops to these kinds of operations in the future.

Mr. Chairman, sometimes despite our best efforts, our military forces get committed to regional disputes, and in that case, we believe that security assistance has proven a benefit to helping to ensure that our friends and allies have the equipment, training, and infrastructure which allow them to work with our American forces.

As a commander during the recent Desert Storm operation, I was able to see firsthand how those years of active planning and effort of building our military-to-military relations with friendly governments, and the interoperability developed through security assistance programs contribute greatly in the operation of our coalition partners, and paid bid dividends for us during the war.

As the director of the Defense Security Assistance Agency, I focus on both those goals. One is to allow our friends and allies to prepare themselves for their legitimate self-defense requirements, and at the same time, hopefully, prepare them to be interoperable with us, if a situation should arise, in which we need their assistance.

This budget, Mr. Chairman, is fully supported, although it is a State Department budget, by the Department of Defense.

Mr. Chairman, I also would say to you that IMET, International Military and Education Training, is considered by the Defense Department as being one of our most cost-effective programs in the 150 account.

Every regional commander-in-chief repeatedly states, when asked orally in front of the secretary, the importance that IMET plays in his regional plan, and how it enhances his political-military relationship with the countries of his region.

Further, in my travels, I find that our Ambassadors posted abroad all actively and energetically support IMET and the objectives it attains.

This year, Mr. Chairman, we are asking for $50 million in the 1998 request. This is an increase of $6.25 million over what was appropriated last year.

The two factors driving this increase are the increased number of countries that we support with the IMET program, and some rising costs within our training base.

Since 1991, we support, with the IMET program, 28 countries that we previously did not support. These countries are found in Central Europe, predominantly, and in the newly independent states of the old Soviet Union, and increasingly, our IMET program has been focusing on preparing these countries for their participation in Partnership for Peace, and in some cases down the road, hopefully, NATO membership.

We are excited about what is going on in the traditional IMET program, what is happening in the Expanded IMET portion of the program, and we would strongly plead that this institution of our Government strongly support our request for the IMET program this year.

Likewise, the Congress provided to us $23.25 million last year, and that is requested this year in FMF administrative expenses, which allow us to support the non-foreign military sales aspects of the security assistance business we do in the Department.

This goes to support administrative costs within the unified commands, and those portions of our embassies abroad which do not support the generation of the FMS administrative fund. These funds are critical to our overseas presence and the operation of our unified commands, and like IMET, we would ask for your strong support in those programs.

Mr. Chairman, that will complete my brief summary remarks of my longer statement. With your permission I will turn to Mr. McNamara.

Senator HAGEL. General, thank you.

[The prepared statement of Lt. Gen. Rhame follows:]

PREPARED STATEMENT OF LT. GEN. RHAME, USA

Mr. Chairman, members of the committee, good morning. It is a pleasure to be here today to testify in support of the Administration's security assistance request for fiscal year 1998.

In our request we are asking for substantial increase over the FY 1997 appropriation. The security assistance part of this budget alone represents a $55.775 million increase. We believe that this increase is fully justified. It has become clear that even though the challenges we face today may not be of the same magnitude as those we faced during the Cold War, they nevertheless require American engagement. Many of these challenges are better and more effectively met by the kind of foreign policy instruments contained in this foreign aid request than by direct military action. Old goals such as preserving Middle East peace are no less important today, but we have important new goals as well. Probably the single biggest of these is the challenge of building a new security structure in Europe. As a result, the demands of preparing the new democracies of Central Europe and the former Soviet Union for full participation in the Partnership for Peace (PFP) and in some cases, NATO membership, account for a significant amount of the requested increase. We are also requesting small amounts of money for programs to train and equip foreign troops for peacekeeping and humanitarian assistance duties and thus reduce the need to commit American troops for these kinds of operations in the future.

Sometimes, despite our best efforts, our military power must be employed. In that case, security assistance has the proven benefit of helping to ensure that our friends and allies have the equipment, training and infrastructure to fight along side us if necessary. As commander of the 1st Infantry Division in operation Desert Storm, I saw first hand how our years of active planning and effort in building military-military relations and interoperability through the security assistance program with our coalition partners paid big dividends during the war. As Director of the Defense Security Assistance Agency, I am responsible for both of these major goals of the security assistance program—preparing our friends and allies worldwide to defend themselves, and preparing them to work better with us, if need be. This budget request, therefore, has the strongest backing of the Department of Defense.

Before I discuss our budget request in detail, I would like to acknowledge the much-needed improvements to the Foreign Assistance Act and the Arms Export Control Act made by P.L. 104-164. We look forward to working with you on future security assistance authorization bills.

International Military Education and Training (IMET)

IMET is our single most cost-effective security assistance program. IMET fosters military-to-military relations, promotes military professionalism, and, via the Expanded IMET program, addresses issues of military justice, respect for internationally recognized human rights, effective defense resources management, and improved civil-military relations. The Commanders in Chief of the unified commands have consistently identified IMET as a key tool for enhancing political/military relations with the various countries in their regions.

Since 1991, we have broadened the reach of the IMET program to 28 new countries, primarily in Central Europe and the Newly Independent States of the former Soviet Union (NIS). Increasingly, our IMET program in this region has come to

focus on preparing these countries for full participation in the Partnership for Peace, and, in some cases, NATO membership. Accordingly, we continue to work towards restoring the level of IMET funding to a level commensurate with the program's global utility and the new requirements for training in these new democracies. This year we are asking for $50 million, an increase of $6.525 million, of which $3.550 million is for countries in Europe and the NIS. Of this, $1.5 million is for three countries, Poland, Hungary and the Czech Republic.

Given that IMET was one of the few programs to be increased last year, you might well ask whether this additional funding is really justifiable in a time of budgetary stringency? The answer is yes. IMET course costs are rising by an average of eight percent per year due to reductions in the DoD student population that increase per-student costs, along with normal inflation. Further, costs increase as country programs mature. Starting an IMET program with a new country is relatively inexpensive. English-language training is often a prerequisite for IMET students before they can take the more costly professional military education courses that bring the real benefits. The early, inexpensive phase for these new countries is largely complete, and follow-on training needs to be funded. At the same time, we are also proposing to bring in 570 more students worldwide, of which the majority will be from Central European and NIS countries. So this proposed expansion in the IMET program is in part a natural consequence of seeds planted several years before, and a component of our larger efforts to improve the professionalism of, and enhance interoperability with, the militaries of Partnership for Peace countries as well.

Foreign Military Financing (FMF)

We are requesting $49.25 million more than last year's allocations for the FY 1998 FMF program, after accounting for the funding of "FMF" demining in the new Non-proliferation Anti-terrorism, Demining and Related programs account.

Central Europe and the NIS

As with IMET, our interests in Central Europe are an important factor in our request for increased funding. We are requesting $70 million in FMF grant funding for the Partnership for Peace initiative, an increase of $10 million. Support for the Partnership for Peace helps to ensure that Partners invited to join NATO will be ready to accept the military, political and economic burdens of membership. It also helps to keep the door open to countries not initially invited. The necessarily flexible nature of the NATO enlargement process makes it essential that we fund the program at a level sufficient to make the armed forces of the earliest prospective NATO members truly interoperable with NATO, while helping the other Partner countries progress. At the same time, funds are needed to enhance cooperation with eight countries of the NIS that we expect will become eligible for FMF grant funding for the first time in FY 1997.

Loans to Central Europe

We are also requesting $20 million to subsidize an estimated $402 million in loans to Central European (CE) countries. Unlike the grant assistance requested for the Partnership for Peace, these loans are intended to help address major infrastructure deficiencies, such as lack of airlift capability and NATO-compatible air defense, radar and communications equipment. In some cases, loans may be used to support transfers of excess equipment.

One important aspect of assistance to CE countries, especially those that may not be invited to join NATO initially, is peacekeeping. Virtually all of the CE countries already maintain or are forming dedicated peacekeeping units. Unfortunately, lack of compatible transportation and communications equipment is a major limitation on these countries' ability to work alongside U.S. or NATO troops in international peacekeeping missions. Grants and loans to these countries can make their peacekeeping contributions more effective in the near term, while helping to make them better prepared for possible future NATO membership.

Greece and Turkey

We are requesting $46 million to subsidize the same FMF loan values authorized for Greece and Turkey in FY 1997, $122.5 million and $175.0 million, respectively. In both cases, the loans are needed to continue sustainment of existing U.S.-origin assets. Greece also plans to use these funds to refurbish and upgrade existing U.S. equipment as well as articles that will be acquired through the reduction of conventional forces in Europe and the Excess Defense Articles program.

I appreciate that the proposed assistance to Turkey and Greece may be controversial because of Turkey's problematic human rights record and the potentially volatile situation with regard to Cyprus and the Aegean sea. Yet the strategic importance of this region cannot be overstated. We are committed to balancing tensions between Greece and Turkey, and to promoting Turkey's place in the Western security system. Turkey's secular-oriented, Western-leaning military establishment remains a moderating force in the country and needs our continued support.

Middle East Peace

Once again we are requesting $1.8 billion in FMF grants for Israel and $1.3 billion for Egypt to fulfill our commitment under the Camp David accords. Maintaining Israel's qualitative advantage and modernizing the Egyptian armed forces continue to be major goals of these programs. Regarding Egypt, I would like to point out that in addition to its role in promoting regional peace, our aid there has had the additional benefit of building a strong and reliable coalition partner. Egypt provided over 40,000 troops in the Gulf War, troops whose interoperability with U.S. forces was greatly increased by U.S.-provided training and equipment.

Foremost among Arab countries that have recently taken risks for peace in the region is Jordan. As part of our policy of assisting such countries, we are requesting $45 million this year for Jordan to continue with the F-16 aircraft lease program for which Congress has already appropriated $100 million in FY 1996 and $30 million in FY 1997. The program is on schedule, with the first six aircraft scheduled to be delivered in December 1997 and the remaining ten by February 1998.

Demining

The demining program is an important initiative this Administration has undertaken. The FY 1998 request of $15 million will help to make a reality President Clinton's pledge in May 1996 to strengthen global efforts to deal with the tragic consequences of land mine contamination of farmland and infrastructure in over seventy countries worldwide, principally in Africa and Asia. This effort is intended to help thirteen of the most severely afflicted countries by providing defense articles and services needed to develop indigenous mine clearing and awareness programs.

Enhanced International Peacekeeping Capabilities (EIPC)

I have already mentioned that providing training and equipment to friends and allies for peacekeeping duties is an increasingly important use of security assistance funds. In an effort to improve the peacekeeping readiness of countries that have demonstrated significant potential for greater contributions to international peacekeeping operations, and at the same time reduce U.S. costs for such missions, we are proposing a new program called EIPC—Enhanced International Peacekeeping Capabilities. We are requesting $7 million to be allocated regionally. The funds will be targeted to help selected countries improve their ability to develop and implement effective peacekeeping training and education programs consistent with internationally approved standards. The effort will focus on the development of peacekeeping training centers rather than on training and equipping standing peacekeeping units. Through the procurement of special education training aids, information technologies, and instruction on the development of national-level peacekeeping training and education programs, we will significantly improve the confidence and capability of developing countries to contribute to international peacekeeping missions. This program is being developed in consultation with selected allies to ensure cooperative efforts at implementing common internationally approved peacekeeping training standards. Standardizing peacekeeping training via EIPC will enhance the cohesion and credibility that often challenge a rapidly assembled multinational peacekeeping force.

You may ask, why do we need a new FMF account separate from the traditional voluntary peacekeeping account (PKO)? The answer is that EIPC's program requirements will rely upon DoD to provide Mobile Training Teams (MTTs) and specialized training and equipment. FMF, which is administered by DoD, is better suited than PKO to procure defense articles and services from the Department of Defense.

African Crisis Response Force (ACRF)

Humanitarian and peacekeeping crisis for Africa and beyond are likely to be a recurrent problem in the near future. To deal with those crises, we are requesting $5M in FMF for the African Crisis Response Force (ACRF) initiative. Through provision or training and some equipment, the ACRF initiative will enhance the capabilities of up to 10,000 African troops designated by African countries, for rapid deployment in international peacekeeping and humanitarian operations. Recently, the con-

cept has evolved away from the concept of a standing force and has moved towards more emphasis on capacity building. In this form, several countries, including France, have evinced support for the initiative and have begun to make tangible commitments to provide training and/or equipment or money.

East Africa Regional Assistance

Sudan, Africa's largest country, remains a destabilizing factor in the Horn of Africa. Both the Organization of African Unity and the UN Security Council have condemned the government of Sudan for its involvement in the attempted assassination of Egyptian President Mubarak in June 1995. Sudan continues to sponsor or assist efforts to destabilize its neighbors, notably in Uganda, Eritrea and Ethiopia. Under the rubric of East Africa Regional Assistance, we are requesting $5 million in FMF to help these three countries resist Sudanese-fostered destabilization.

Cambodia

Our FMF request for Cambodia is $1 million, as it has been for several years. In concert with programs funded in other parts of the President's foreign aid budget, we aim to use this small amount to help preserve hard-won democratic gains in this devastated country, promote continued democratization, and prevent the return to power of the Khmer Rouge. This year's FMF request is intended to help develop the Royal Cambodian Armed Forces engineers' capability to build and improve civil infrastructure, support the Cambodian government's establishment of development centers to provide employment for Khmer Rouge defectors, and aid Cambodian efforts to remove an estimated 5 to 8 million anti-personnel landmines.

Caribbean Regional Fund

Caribbean nations traditionally have been strong allies of the U.S. Our long-term objectives in the Caribbean region include maintenance of regional stability, as the Caribbean constitutes America's ''third border.'' This entails assistance to cooperative security organizations--principally through regional coast guards--against international crime, including terrorism, narcotrafficking, arms trafficking, money laundering, and illegal migration; plus search and rescue and natural disaster response. We are requesting $3M for the regional fund, a $1M increase, for long-deferred operations and maintenance support to the Eastern Caribbean's Regional Security System (RSS) and the broader Caribbean Community and Common Market (CARICOM) states.

Administrative Expenses

The $23.25 million we are requesting for FMF Administrative Expenses—the same amount for the past several years—pays for the expenses of administering the non-Foreign Military Sales aspects of our security assistance program worldwide. This includes financing for the administrative costs for the security assistance activities of the Unified Commands as well as the Security Assistance Offices in our embassies abroad. IMET administration is a particularly important component of these costs. Yet, despite the recent increase in IMET programs, and thus the need for SAOs, in Eastern Europe and the NIS, we intend to hold costs to the same level in FY 1998 as FY 1996 and FY 1997.

Korean Peninsula Energy Development Organization (KEDO)

On behalf of the Department of Defense, I would like to mention this critical issue. The State Department has requested $30 million to support KEDO for FY98. This amount is within the range for US contributions anticipated by former Secretary Christopher in Senate testimony in early 1995. KEDO is charged with implementing technical aspects of the Agreed Framework, including delivery of heavy fuel oil and construction of two light water reactors in North Korea, in return for the North freezing activities at its nuclear facilities. From DoD's perspective, this project is critical to safeguarding the security interests of the US and its allies in the region. A failure of KEDO's efforts could lead to a reactivation of North Korea's nuclear program, which would pose a substantial risk to US forces in the region as well as heighten tensions and insecurity among all Northeast Asian countries. US financial backing is extremely important in demonstrating to our partners in KEDO, particularly the ROK and Japan, that the US is willing to assume its share of the burden in this security enterprise. US funding also sets an example for other potential contributors that are trying to assess the importance of this project.

Conclusion

I would like to conclude by reiterating that this budget request is very much in our interest. These programs contribute directly and indirectly to the security of the American people. The request is a reasonable compromise between our worldwide commitments and responsibilities on the one hand, and our budget constraints on the other hand. The Department of Defense supports it completely. Thank you.

Senator HAGEL. Secretary McNamara.

STATEMENT OF ASSISTANT SECRETARY THOMAS E. MCNAMARA, DEPARTMENT OF STATE

Mr. MCNAMARA. Thank you, Mr. Chairman. I am pleased to be here today to testify in support of the administration's budget request. I have a longer written statement, which covers the submission in detail, and I would like to ask that that statement be included as part of the record.

Senator HAGEL. Yes.

Mr. MCNAMARA. Secretary Albright has laid out 6 mutually reinforcing objectives, which form the framework of our international affairs budget request for fiscal year 1998.

These objectives are securing peace, promoting U.S. prosperity through trade investment and employment, fostering sustainable development, providing humanitarian assistance, building democracy, and advancing diplomacy and diplomatic readiness.

Today, I would like to address the programs which serve two of those objectives, securing peace, and building democracy. These programs all increase the security of the American people. That point is central to everything that I would say here today.

The basic purpose of these programs is, indeed, to strengthen the security of the United States, of the American people, but they also improve the security of many of our allies, partners, and friends as a secondary benefit, and demonstrates the interrelationship of our security with that of other nations.

But the strongest reason for supporting these programs is that they reinforce American security.

Rather than refer to this as our security assistance budget, I think it is more accurate to refer to it as our security reinforcement budget. When we promote peace in the Middle East, we promote American security.

When we improve our new security relationships with the states of Central Europe, we improve American security. When we strengthen other democracies, we strengthen our democracy.

If we can reinforce the nonproliferation norms and institutions that have been established in the international world, we reinforce American security. I repeat, this is not security assistance for someone else, this is security reinforcement for ourselves.

Let me turn first to our $5.78 billion budget request devoted to securing peace. Ensuring the security of our Nation remains our principal obligation, and there are dangers today, in an uncertain world, presenting serious threats to that security.

American military power is one of the principal means by which we protect our interests against these threats; however, at the same time, we must seek to prevent conflict and contain these conflicts through strengthening our allies and partners, specifically, the Middle East peace process.

Secretary Albright has set forth key areas that are particularly significant opportunities for the U.S. in the coming year. Helping to achieve a lasting peace in the Middle East is one of the most important of those.

Peace would be impossible without U.S. leadership, and this administration is determined to do everything it can to support those who are willing to take risks for peace. Our budget request includes $5.34 billion to support our efforts to bring peace in the Middle East.

The request includes traditional amounts of economic and military support for Israel and Egypt, and for other countries which are important to the peace process, notably, Jordan.

This helps to meet their legitimate security needs, and to promote continued economic reform and broad based economic growth. Our request for the West Bank in Gaza is intended to continue to promote Palestinian self-government through economic development and institution building.

Mr. Chairman, in the past, Members of Congress have expressed concern about the large piece of the pie which goes to the Middle East peace process, and I can assure you that we in the administration share that concern, especially as overall discretionary fund levels continue to decrease. However, the Middle East peace process is at a crucial point.

Through our diplomatic and financial engagement, we must maintain the conditions necessary for peace by giving Israel and the others in the region confidence to take further difficult steps toward peace.

Through continued diplomatic and financial engagement, we seek to avoid the costs of another Middle East war, and to ensure that our vital oil supplies are protected. $5.3 billion is a significant amount of money, but I believe, Mr. Chairman, that it is money well spent to advance vital U.S. interests in a stable Middle East, in which Israel is secure and at peace with its Arab neighbors.

The next major area I would like to address is European security. Secretary Albright also identified promoting European security as an area of opportunity for U.S. foreign policy.

Our budget requests include $204 million in military and economic support for our security objectives in Europe. Of this total, $108 million represent programs of military cooperation designed to help build new European security structure through programs of security cooperation with the new democracies of Central Europe and the newly independent states of the former Soviet Union.

These nations are taking difficult steps to influence social, political, and economic reforms to catch up with their Western neighbors. Clearly, some have a longer way to go than others, but we are committed to helping these countries build a stable and integrated democratic Europe.

Of the $108 million, $70 million is for the Partnership for Peace, and $18 million for the International Military Educational and Training Program, IMET; $20 million is for Central European defense loans.

The PFP program, Partnership for Peace, and IMET program, will assist the partners to continue their active cooperation with

NATO and other partners, as we help those countries which want to join NATO better prepare for that membership.

By developing the capacity of the partners to contribute to actual operations, the PFP program will help to ease demands on the U.S. allied forces, and other resources.

Since the establishment of the PFP a few years ago, this program has been extremely successful in easing cold war lines of confrontation, and in bringing former adversaries into a community of shared values, principals, and interest.

As an example and demonstration of the effect, the participation of 13 partners in the ICOR in Bosnia has shown that the PFP is of value for in-the-field operations.

Our request for $20 million in loan budget authority is going to provide approximately $402 in low-cost loans for credit-worthy Central European nations to allow them to address infrastructure deficiencies.

The loans, while they are distinct from the PFP request, certainly complement the efforts of PFP nations who seek NATO membership and commonality in their infrastructures.

We also plan to continue our support for two key NATO allies, in recognition of their importance in maintaining stability in a region that is critical to U.S. interests.

Our request of $46 million for subsidy costs, for a total of $298 million in FMF loans for Turkey and Greece, will support sustainment of U.S. equipment.

We are also requesting $50 million in economic assistance for Turkey to assist in resolving their economic situation, caused in part by its support for the Iraq sanctions.

It will be hard to overstate the importance of Turkey as a U.S. ally. It sits at the crossroads of Europe, the Middle East, and the newly independent states. It plays a critical role in a wide range of issues vital to U.S. interests.

Achievement of U.S. goals in the region will depend largely on our ability to maximize Turkish-U.S. cooperation on a broad range of issues, where we have overlapping interests. Among these are stability in the Caucases and in the Northern Gulf area, lowering tensions in the Aegean, and a solution in Cyprus.

Cooperation in these issues is dependent on preserving Turkey's position as a democratic secular nation in a region with weak democratic traditions and where political instability prevails.

We seek, therefore, to strengthen Turkey's ability to carry out its essential security role in the region, both through democratic tradition through continued emphasis on human rights, and to help its economy grow and prosper.

Now, let me turn to the global programs, which account for $167 million of our request. First, peacekeeping. The budget we are seeking of $102 million is to support a broad range of non-U.N. multilateral peacekeeping programs and operations.

The number of contingencies requiring peacekeeping operations has risen dramatically in recent years, and we expect the trend will continue, especially in politically charged areas of Central and East Asia, Europe, Africa, and even in Latin America.

While the bulk of funding for multilateral peacekeeping operations goes to the United Nations, it is sometimes in our interest

to support on a voluntary basis peacekeeping activities that are not U.N. mandated or U.N. funded.

In addition to supporting long-term non-assessed commitments, such as the Multinational Force and Observers (MFO) in the Sinai, and in the Organization for Security and Cooperation of Europe, the OSCE, this $102 million will be used to promote regional involvement in the resolution of neighboring conflicts.

In Africa, for example, we are requesting funds to support a multinational African crisis response initiative, that seeks to improve and expand on the abilities of African nations to respond to peacekeeping and humanitarian crises in Africa.

Our request also addresses potential voluntary operations in other continents, Europe, Latin America, and the Caribbean.

Second, a global program, which the General has referred to, IMET. For fiscal year 1998, we are requesting $50 million for IMET, a $6.5 million increase over 1997, so that we can provide essential training to the emerging democracies of Central Europe, the newly independent states of the former Soviet Union, and our PFP partners, so that they will move closer to NATO membership.

It will also provide important funding for programs in the Near East, South Asia, Latin America, the Caribbean, Africa, and East Asia.

While the bulk of the $6.5 increase will go to support maturing IMET programs in Central Europe and the newly independent states, it also is needed to offset rising IMET costs.

Over the past 3 years, costs have increased about 25 percent, and the increase is attributable partly to inflation, but mostly to the reduction in U.S. military training, so that the increase of per-student tuition costs has risen.

The third element of the global program is demining. Mr. Chairman, the demining program is one of the important initiatives that this administration has undertaken. Clearly, the removal of landmines is a major challenge, requiring long-term solutions.

The United States has some compelling interests to promote national and regional security and political stability, and economic development, by reducing civilian land mine casualties, and the tragic human, social, and economic costs of countries with land mine problems.

Since the start of this program in fiscal year 1994, we have worked closely with other Agencies on the program to develop indigenous capabilities to remove landmines from mine-inflicted countries.

Our request for $15 million this year will support programs around the world, in Afghanistan and Angola, in Cambodia, Ethiopia, Jordan, Laos, Mozambique, Rwanda, and in Latin America.

Non-proliferation, with the dissolution in the Soviet Union, and the proliferation of weapons of mass destruction now being threatened, poses one of the greatest threats to the security of the United States and of our allies.

Preventing the threat of these and other dangerous weapons is an administration priority, and Secretary Albright has identified non-proliferation as one of her foreign policy priorities, as has the administration in the preceding 4 years.

We have been working diligently with the states of the former Soviet Union to help dismantle their nuclear arsenals, prevent the proliferation of the fissile materials that come out of those arsenals, direct nuclear technologies to the civil side, and to reduce the numbers of weapons of mass destruction. Also, very important is to develop comprehensive and effective export control regimes in those countries. Today, Ukraine, Belarus, and Khazakistan are nuclear-weapons-free states.

We have established Science Centers in Kiev and Moscow to provide meaningful research alternatives to former weapons scientists, to prevent a brain drain to rogue states, and to move these scientists into peaceful, civil scientific pursuits.

On the Korean peninsula, the KEDO program is preventing North Korea from developing a nuclear arsenal that would destabilize the entire region.

We hoped to make the future safer through this program, not only for the next generation in those countries, but most importantly, for our own country as well. However, that work is not yet done, and so we are requesting $101 million in fiscal year 1998 to continue these vital programs in the non-proliferation area.

Building democracy, in this area, let me turn to the Clinton administration's commitment to support democracy and defend human rights, and how it reflects American ideals. Over the past several years, the growing movement toward political freedom around the world has profound and positive implications for the United States.

Democratic transformation in Central Europe, and the birth of democratic institutions in the states of the former Soviet Union, has led to emergence of new partners in security and in trade.

In the Western Hemisphere, all but one nation are now led by elected governments. As a result, tensions have declined, violent conflicts have been resolved, and market reforms have led to impressive economic growth.

For example, Latin America is now the fastest growing market for American exports. In Asia, our treaty alliances are stronger than ever now that each of our allies is a democracy.

In Africa, we have seen that participatory democracies are far more likely to avoid the man-made humanitarian disasters that touch our conscious and require such large infusions of resources from the international community and from the United States; hence, our fiscal year 1998 budget request, $205 million to support a range of programs to help strengthen and consolidate these democratic processes and institutions in countries that have embarked on that course.

In Haiti, our $70 million request will help consolidate Haiti's transition from military to civilian rule, and enhance the training of the Haitian national police.

In Cambodia, another country making a difficult transition to democracy, following decades of conflict, the Cambodian coalition government is struggling to build a culture of democracy in the face of enormous challenges. Our $37 million request will enable the U.S. to advance democratic and economic development through health care, education, rural development, and legal, regulatory, and judicial programs.

In Latin America and the Caribbean, we are requesting $49 million in military and economic programs to promote and strengthen democratic institutions, local governments, law enforcement administration of justice, and the regional security system in the Eastern Caribbean. We are also seeking $39 million for similar programs in other areas of the world.

In conclusion, Mr. Chairman, let me return to the central point of my presentation. The funding we are requesting in our overall security budget directly increases the security of the United States and of American citizens.

The U.S. security depends on promoting peace in the Middle East, building a new security order in Europe, preventing the spread of weapons of mass destruction, and helping emerging democracies.

These programs to strengthen American security are essential tools to pursuing American interests abroad, and for our security here at home. Without adequate funding, however, American leadership in the world and our vital interests are going to be at risk.

The support of this committee is essential to achieving these goals, and we are looking forward to working closely with you and your staff to fully address any concerns or questions you may have.

I want to thank you, Mr. Chairman, and the members of the committee for your attention, and now I will be pleased to answer any questions you may have.

Senator HAGEL. Mr. Secretary, thank you.

[The prepared statement of Mr. McNamara follows:]

PREPARED STATEMENT OF MR. MCNAMARA

Introduction

Thank you, Mr. Chairman. I am pleased to testify today in support of the Administration's FY 1998 security assistance budget request for foreign operations.

As America stands at the threshold of a new century, we face a challenge that recalls the opportunities and dangers that confronted our nation at the end of the First and Second World Wars. Then, as now, two distinct choices lay before us: either to claim victory and turn inward, or to continue to provide strong-American leadership in international affairs and enhanced U.S. national security. After World War I, our leaders chose the first course and we and the world paid a terrible price.

No one can dispute that after the Second World War, our leaders—and most of all the American people—wisely made the second choice. By choosing a path of engagement, America made possible the construction of a more secure, democratic, and prosperous world. To meet the challenges of the next century and to build an even safer world for our children, we must plot a similar course marked by vision and steadfastness of purpose.

The United States has a remarkable opportunity in the years ahead to shape a world conducive to American interests and consistent with American values—a world of open societies and open markets. But the pathway to a more peaceful, secure, and democratic world remains beset with uncertainty. As in the past, the critical test of American leadership will be our willingness to dedicate the resources necessary to protect and enhance American national interests abroad. This task will not be easy, in light of budget constraints and our commitment to balance the federal budget.

However, if we fail to exercise our leadership now in meeting the threats to the security of our nation posed by the proliferation of weapons of mass destruction and other dangerous arms, drug trafficking, terrorism, and other activities that undermine regional security, impede democratic reform and stifle economic growth, we will pay an enormous price later.

President Clinton's fiscal year 1998 International Affairs budget request of $19.451 billion, a modest increase over the FY 97 appropriated level of $18.227 billion, will provide the minimum essential tools for maintaining America's strong global leadership role. The foreign operations component of this request totals

$13.324 billion, up from $12.250 billion in FY 97. We look to Congress for solid, bipartisan support in rebuilding a foreign affairs program base that in recent years has slipped to dangerously low levels.

Mr. Chairman, the purpose of American foreign policy is to protect and promote American interests. We can no longer afford to cut our International Affairs budget and risk crippling U.S. prestige, credibility, and influence on the international stage. If we do, we threaten to jeopardize important political and economic interests, and potentially compromise our national security. By supporting our FY 98 budget request, you and the members of this committee will enable a dedicated corps of public servants to champion American political and economic interests, further democracy, and maintain American leadership abroad. Although the future may be uncertain, one thing is for sure: we will continue to face crises and challenges. As we move toward the twenty-first century, we must remain willing and prepared to protect our nation's vital interests.

Secretary Albright has laid out six mutually reinforcing objectives which form the framework of our International Affairs budget request for fiscal year 1998. They include:

- Securing peace;
- Promoting economic prosperity;
- Fostering sustainable development;
- Providing humanitarian assistance;
- Promoting democracy; and
- Promoting diplomatic readiness.

Today, I would like to address in greater detail programs which respond to two of those objectives: securing peace and promoting democracy. First, let me discuss key regions where we are pursuing peace. In each, these programs not only build but also leverage support from our friends and allies for our common goals. From there, I will review our security assistance programs that promote democracy, and conclude with an overview of programs that confront global threats to our national security.

Securing Peace in Regions of Vital Interest

Ensuring the security of our nation remains our principal obligation. Today's uncertain environment still presents a variety of threats to U.S. security including:

- Efforts by rogue regimes to build or acquire weapons of mass destruction, their delivery systems, and other dangerous arms;
- Attempts by regional forces hostile to U.S. interests to dominate their respective regions through aggression, intimidation or terror; and
- Internal conflicts among ethnic, national, religious or tribal groups that undermine regional stability, impede democratic reform, stifle economic growth and create major humanitarian tragedies and refugee flows.

While American military power serves as the principal means by which we can protect our interests against these threats, our critical mission is to prevent such threats from requiring military intervention. We do this through intensive diplomacy, multilateral peace operation efforts, and strengthening of our alliances and coalition partners. The foreign operations budget funds these important efforts and, in the end, helps us avoid the costs of armed conflict while preserving international peace and stability.

Middle East Peace

The Middle East is an area of vital concern to the United States. Thus, a just, lasting, and comprehensive Arab-Israeli peace, including full implementation of existing agreements between Israel and its neighbors, remains a high priority for U.S. foreign policy. The agreements achieved over the last two years between Israel and Jordan and between Israel and the Palestinians, negotiation on the Israel/Syria and Israel/Lebanon talks, the expansion of political and economic contacts between Israel and Arab countries, and the long-standing peace between Israel and Egypt form the foundation of a comprehensive settlement of the Arab-Israeli conflict.

FY 98 Request for Assistance for the Middle East

(dollars in millions)

	FMF	EST	Total
Israel	1,800.000	1,200.000	3,000.000
Egypt	1,300.000	815.000	2,115.000
Jordan	45.000	25.000	70.000
ME Dev Bank		52.500	52.500
West Bank-Gaza		75.000	75.000
Other ME		29.000	29.000
Total	3,145.000	2,196.500	5,341.500

Israel and Egypt

As in past years, support for the Middle East Peace Process commands the largest share of the FY 1998 International Affairs budget—about $5.3 billion. The Administration seeks traditional amounts of economic and military support for Israel and Egypt to meet the legitimate security needs of these countries and to promote continued economic reform and broad-based economic growth. America's commitment to Israel's security is strong and unshakable. Our assistance is intended to strengthen a free and democratic Israel, as well as to facilitate a negotiated peace and stability in the region. U.S. assistance to Egypt reinforces its moderating influence in the region and helps it play a crucial role in the negotiation process.

Mr. Chairman, in the past members of Congress have expressed concern about the large percentage of our budget which goes for Middle East peace. We in the Administration also share that same concern, especially in this era of declining discretionary resources. Nevertheless, we believe that this is money well spent. We are closer now than ever before to achievement of a comprehensive Arab-Israeli peace, but much work still remains. Political, social, and economic developments in the region continue to present obstacles which must be overcome.

Through our diplomatic engagement and financial assistance, we must maintain the conditions necessary for resolution of long-standing conflicts. We must help Israel and her neighbors implement existing peace agreements and conclude new ones to move us closer to our common goal. The U.S. stake in promoting peace in the Middle East cannot be overemphasized; the consequences of renewed conflict would be dire for U.S. interests. Without these resources, we put at risk the overall Peace Process.

In FY 98, our military assistance (FMF) program will help maintain Israel's qualitative edge by allowing the continuation of cash-flow funding and providing follow-on support for major multi-year procurement programs, such as the advanced long-range F–15I fighter aircraft, SAAR corvettes, and continued upgrades of Israel's Apache and Blackhawk helicopters. In addition, the proposed economic assistance program (ESF) will promote economic reform, financial stability, and structural adjustments needed for rapid and sustainable growth.

U.S. assistance to Egypt reinforces its moderating influence in the region and encourages its continued participation and leadership in the Middle East Peace Process. Given its key role in the Peace Process and in regional politics more generally, the United States has a strong interest in maintaining its long-established bilateral security relationship, and in supporting Egypt's critical political and military role as a moderating force in the region. Our assistance also serves U.S. strategic interests by providing the United States with a capable ally willing to contribute to international peacekeeping efforts such as Rwanda, Somalia and, most recently, Bosnia.

Our FY 98 FMF program will allow Egypt to continue five major programs—armor modernization, F–16 and Apache aircraft purchases, Hawk modernization, and frigate procurements. Funding will also allow for upgrading of secondary systems and increasing concentration on interoperability and sustainment of U.S.-origin equipment. Supporting such modernization is crucial to maintaining the military balance in the region—demonstrated by the Egyptian commitment to Desert Storm—and strengthening the security of those states at the forefront of the Peace Process.

The FY 98 ESF program will target infrastructure development and.policy reforms essential to basic economic growth. We will work closely with the Egyptian government to encourage policy reforms which promote macroeconomic growth and support structural change in the agricultural, trade, and financial sectors. The ESF program will allow us to expand upon the gains already achieved under the Gore-

Mubarak Partnership for Economic Growth and Development in privatizing public sector enterprises and private sector investment. Finally, programs will focus on infrastructure development of water and sewage treatment systems, as well as electricity and communications networks.

West Bank and Gaza

Central to U.S. support for the Middle East Peace Process is facilitation in Israeli-Palestinian implementation of the Interim Agreement of September 1995 and in the permanent status negotiations, which began May 5, 1996. The United States is fully committed to supporting these processes, and to enabling the Palestinian Authority to increase its economic growth and to advance democratic institutions in the West Bank and Gaza. Stable economies in the West Bank and Gaza are vital to the viability of new political structures, including the new, democratically-elected Palestinian Legislative Council. With these economies now severely depressed, the Palestinians need extensive economic assistance to help them create effective institutions of self-rule and to translate-the peace agreements into real and lasting changes on the ground.

To provide a stable foundation for long-term prosperity and Palestinian self-rule, the Administration is requesting $75 million in ESF for programs that stress economic development based on private sector activity and regional economic cooperation. Assistance programs will focus on economic development through job creation activities, improving the quality and sustainable use of water resources, and promoting sustained production of goods and services by Palestinian producers. U.S. assistance provided in coordination with other donors is essential for the formation of the political, economic, and institutional infrastructure necessary for self-government and economic viability.

Jordan

Under King Hussein's leadership, Jordan continues to play a positive, vital role in the Middle East Peace Process. Our assistance provides tangible evidence of the U.S. commitment to Jordan for the bold, courageous steps it has taken for peace in the region. Our FY 98 FMF and ESF programs are designed to expand and deepen Israeli-Jordanian ties while enhancing Jordan's economic stability, promoting its economic development, and building its military capabilities.

U.S. military assistance augments Jordan's important role in contributing to the peace and security of the region and supports Jordan as it enforces UN sanctions against Iraq. Our FY 98 FMF request of $45 million will provide for the delivery and maintenance of a squadron of F–16s provided under a no-cost/low-cost lease agreement. These aircraft are crucial to sustaining Jordan's strategic and security interest in the region. This assistance also assures strong U.S. military access, and promotes interoperability of the Jordanian Armed Forces with U.S. forces in potential military missions.

The $25 million ESF request will promote Jordan's long-term economic viability by targeting two threats to Jordan's economic growth: a major financing gap resulting from inadequate foreign exchange; and an increasingly serious water shortage. USMD has focused its efforts on increasing Jordan's foreign exchange earnings by promoting economic reforms needed to improve its investment climate, such as simplifying customs procedures, and automating export incentive programs. ESF programs will permit construction of water treatment facilities, and fund feasibility studies and infrastructure pilot projects involving the private sector to allow upgrades for more water supply and sewage treatment systems.

Lebanon

The United States believes that a peaceful, prosperous, and stable Lebanon can make an important contribution to stability and a comprehensive peace in the Middle East. For this reason, the U.S. has publicly committed to support Lebanon's reconstruction and national reconciliation following 17 years of civil war. The FY 1998 budget, therefore, includes a modest $12 million economic support program for Lebanon to assist in the rebuilding of civil administration institutions vital to restoration of the government's ability to provide basic services.

Middle East Development Bank

The Bank for Economic Cooperation and Development in the Middle East and North Africa (MEDB) is the result of an historic joint proposal by Egypt, Israel, Jordan, and the PLO, and is a key element of the effort to strengthen the economic foundation essential to a lasting peace in the Middle East. Our FY 98 ESF request of $52.5 million represents an initial contribution to the MEDB, which has been de-

signed to leverage significant resources to address clearly identified economic needs in the region in ways that cannot currently be met by existing bilateral or multilateral programs. The bank will have a strong private sector focus and a lean management structure. It will support regional projects, particularly transborder infrastructure systems for water, electricity, transport, and telecommunications, private sector entrepreneurship, and regional economic cooperation.

Building a New European Security Structure

America's has a great stake in preserving and promoting peace, democracy, and security throughout the European continent. Deep political, military, economic, and cultural ties link Europe's security and prosperity to our own. Twice in this century, Americans have gone to war in Europe to protect our vital interests, and American troops have remained in Europe since World War II. Europe is now in a period of transition and transformation as we attempt to overcome Cold War divisions in building a New Atlantic Community. But regional conflicts persist in the Balkans, the former Soviet Union, Central Europe, and the eastern Mediterranean, posing serious threats to regional—and global—security and stability.

U.S. security policy in Europe rests upon the cornerstones of NATO; the Organization for Security and Cooperation in Europe (OSCE); cooperation with Russia; and an enhanced partnership with the European Union on regional and global issues. The point of departure has been and will remain the preservation of U.S. leadership in a robust Atlantic Alliance. We have led in adapting NATO to meet the challenge of ensuring peace and stability in Europe in light of the changed security environment. In NATO, we face several critical, ongoing tasks: 1) continuing the momentum toward gradual, transparent enlargement of the Alliance; 2) establishing a new, cooperative relationship between NATO and Russia, expressed in a formal charter; 3) promoting a more visible and capable European role; and 4) enhancing the Partnership for Peace program.

The potentially volatile situation in Europe's southeastern corner requires particular care. The United States is committed to promoting a settlement on Cyprus, controlling tensions between Turkey and Greece, and strengthening Turkey's place in the Western economic and security system. The United States gives high priority, not only to bilateral relations with these countries, but also to promoting ties between this region and Western Europe.

For FY 98, we are requesting $219.3 million in military and economic assistance to support our security objectives in Europe. Together with our requested economic assistance program for Central Europe and the Baltic States ($492 million) and MS ($900 million) these funds will help to build a stable, free, undivided, integrated and democratic Europe.

FY 98 Budget Request—Building a New European Security Structure

(dollars in millions)

	FMF	ESF	Total
CE Defense Loans [1]	20.000		20.000
Cyprus		15.000	15.000
Greece [1]	12.850		12.850
PFP [2]	70.000		70.000
Turkey [1]	33.150	50.000	83.150
IMET			18.300
Total [3]	136.000	65.000	219.300

[1] Loan amounts: CE—$402.000; Greece—$122.500; Turkey—$175.000.
[2] Does not include approximately $33.000 from Function 050 for PFP.
[3] Does not include $19.600 in ESF for the International Fund for Ireland.

Partnership For Peace

In 1994, the President proposed, and allies embraced, a program of NATO adaptation. The goal is to create a new NATO, internally restructured, equipped for new roles and missions, and open to new members and deeper partnership. NATO's Partnership for Peace (PFP) program is designed to strengthen practical cooperation and establish strong security ties between NATO and participating countries in Central Europe and the New Independent States of the Former Soviet Union (NIS). It can also serve to prepare those Partners interested in joining NATO for the obligations of membership. By forging close cooperative ties between NATO and its Central European and MS Partners, PFP will help erase Cold War lines of con-

frontation and bring former adversaries into a community of shared values, principles and interests. The transformation of NATO's relations with the rest of Europe will help provide a secure and stable environment conducive to increased trade, development and market-based reforms.

NATO enlargement creates a special need to enhance support to those countries seeking NATO membership. Those countries which will be invited to open accession talks need assistance to make their military forces operable with Alliance forces. We must therefore increase the FMF grant assistance available to these countries. For those countries which desire to join NATO but will not be part of the first accession, the need is equally critical. PFP links between Central European, Baltic states, the MS and the West must be strengthened to reassure these countries of their place in the West, and to prevent any sense of a security vacuum.

Partner nations, while generally committed to making their forces capable of cooperating with NATO, currently lack the necessary resources to undertake improvements in logistics, equipment, and training. We must be willing to contribute adequate resources to ensure PFP's success. This assistance aims to improve Partners' abilities to contribute to peace operations, search and rescue, humanitarian assistance operations, and other joint operations that may be necessary in the future. For example, the participation of 13 Partners in the multinational Implementation Force in Bosnia reflected initial returns on the small investments we have made in PFP, and provides an indication of the potential for long-term benefits.

In FY 98, the Administration is requesting $103 million for PFP: $70 million in FMF and $33 million within the DoD request. In Central Europe, foreign assistance funds will support expansion of the Regional Airspace Initiative, which will provide NATO-compatible air traffic control systems in selected countries, English language training, search and rescue equipment, communication and command,and control systems, and transportation and logistical support for participation in PFP exercises. Funds will also provide ongoing support for the Baltic Peacekeeping Battalion. In the MS, we will build upon the foundations that we expect to lay in FY 97 in the areas of language training and communications equipment, to include emphasis on a Central Asia peacekeeping battalion and a Ukrainian-Polish peacekeeping battalion. The combined State/DoD request will continue support for Partner participation by relieving some of the logistical and resource deficiencies, equipment obsolescence, and operational shortcomings which have hampered such participation.

Central Europe Defense Loans

In the interest of contributing to the stability of Europe, the United States has a clear and compelling rationale for nurturing expanded defense cooperation with the friendly, democratic states of Central Europe and the Baltics. Our FY 98 request for $20 million in FMF loan subsidies will provide approximately $402 million in market-rate loans. The Central Europe Defense Loan (CEDL) program will increase our ability to assist the region, in light of limited grant resources, by encouraging credit worthy countries with growing economies to use national funds to meet their defense sustainment/modernization needs, ultimately improving compatibility with NATO forces. Although the CEDL contributes to the overall goal of NATO enlargement, it is separate and distinct from our PFP program in that it addresses deeper infrastructure deficiencies, such as lack of airlift capability or incompatible radar and IFF systems.

The CEDL program will enhance the defensive military capabilities of Central Europe and Baltic states by assisting in the acquisition of defense equipment and training such as: NATO-compatible airfield navigation aids; computers for Defense Ministries, individual soldier equipment for peacekeeping or rapid deployment units; transportation equipment, including vehicles and aircraft; ground-based radar upgrades; search-and-rescue equipment; communications modernization; and airfield radars, navigational aids, and airfield landing systems. Moreover, by focusing on qualitative improvements in defense infrastructure, this program will allow some of the oversized, Soviet-equipped militaries to continue down sizing and restructuring their forces while maintaining essential defensive capability. The CEDL program will support the trend in the region towards supporting smaller, more capable, and more professional militaries.

Key NATO Allies

We are also planning to continue our support for two key NATO allies in recognition of their importance in maintaining stability in a region that is critical to U.S. interests. Our FY 98 request of $46 million for the subsidy cost of a total of $297.5 million in FMF loans for Greece and Turkey will support sustainment of U.S.-origin equipment. We are also requesting $50 million in ESF to assist Turkey to address long-term structural reforms necessary to sustain growth, to ease the transition as

Turkey joins the EU Customs Union, and to help offset the significant economic costs to Turkey associated with enforcement of UN sanctions against Iraq.

It would be hard to overstate the importance of Turkey as a U.S. ally. It sits at the crossroads of Europe, the Middle East, and the Newly Independent States of the Former Soviet Union. It plays a critical role in a wide range of issues vital to U.S. interests. Achievement of key U.S. goals in the region will depend largely on our ability to maximize Turkish-U.S. cooperation on a broad range of issues where we have overlapping interests. Among these are stability in the Caucasus and the northern Gulf region, lowering tensions in the Aegean, and a solution in Cyprus. Cooperation on these issues is dependent on preserving Turkey's position as a democratic, secular nation in a region with weak democratic traditions and where political instability prevails. We seek therefore to strengthen Turkey's ability to carry out its essential security role in the region, to bolster its secular democratic' tradition through continued emphasis on human rights, and to help its economy grow and prosper.

Voluntary Peacekeeping Operations

While the bulk of ending for multilateral peacekeeping operations goes for assessed United Nations operations, it is sometimes in the U.S. interest to support, on a voluntary basis, peacekeeping activities that are not UN-mandated and/or are not funded by UN assessments. The Peacekeeping Operations (PKO) account has a demonstrated capacity, under appropriate circumstances, to separate adversaries, maintain cease-fires, facilitate delivery of humanitarian relief, allow repatriation of refugees and displaced persons, demobilize combatants and create conditions under which political reconciliation may occur and democratic elections be held. This account provides the flexibility to support pro-actively conflict prevention and resolution, multilateral peace operations, sanctions enforcement, and similar efforts outside assessed UN peacekeeping operations. The costs to the United States of such voluntary operations are often much lower than in UN-assessed operations.

For FY 98, we are requesting $90 million in PKO for voluntary peacekeeping activities. In addition to supporting long-term, non-assessed commitments, such as the Multinational Force of Observers (MFO) in the Sinai and the Organization for Security and Cooperation in Europe (OSCE), these ends will be used to promote regional involvement in the resolution of neighboring conflicts. In Africa, for example, our PKO request, combined with a small amount of FMF, will be used to help sustain and enhance the African Crisis Response Force (ACRF) initiative, which seeks to improve and expand the abilities of African militaries to respond quickly to humanitarian crises on the African continent and elsewhere. The ACRF represents a regional application of our new global initiative, the Enhancing International Peacekeeping Capabilities (EIPC), for which the Administration is requesting $7 million in FMF. The EIPC will assist selected "focus" countries in improving their capabilities and readiness for peacekeeping operations, thereby reducing the burden on the United States. Finally, the FY 98 PKO request also addresses potential operations in Europe, Africa, Latin America and the Caribbean.

Demining

Mr. Chairman, the demining program is one of the most important initiatives this Administration has undertaken. As you know, the United States has a compelling interest to promote national and regional security, political stability, and economic development by reducing civilian land mine casualties and their tragic human, social, and economic costs in war-torn countries. In May 1996, President Clinton pledged to strengthen global efforts to clear mine fields through developing better mine detection and mine-clearing technology, and to expand demining training programs in countries with landmines.

The problem is enormous: more than 100 million mines have been placed in the last 55 years in about seventy countries, mainly in Africa and Asia. Clearly, the clearing of landmines represents a major challenge requiring long-term solutions. Since FY 94, we have worked together with DoD to design programs wherein FMF funds for demining are used primarily to provide equipment to complement comprehensive demining training programs funded by DoD humanitarian assistance ends. Together, these resources have begun to develop indigenous capabilities to remove landmines from mine-afflicted countries.

Our FY 98 FMF request for $15 million will support demining programs around the world. We will build upon ongoing programs in Angola, Cambodia, Eritrea, Ethiopia, Jordan, Laos, Mozambique, Namibia, Rwanda, and Central America, as well as with the UN Office for the Coordination of Humanitarian Assistance to Afghanistan, to assist with their mine clearance/mine awareness programs.

International Military Education and Training (IMET)

IMET is an instrument of national security and foreign policy—a key component of U.S. assistance that provides U.S. training on a grant basis to students from allied and friendly nations. IMET is an investment in ideas and people which has an overall positive impact on the numerous people trained under the program. It is a program that, for a relatively modest investment, presents democratic alternatives to key foreign military and civilian leaders. My DoD colleagues frequently cite this program as the best return dollar-for-dollar on investment that we make.

From a military perspective, the principal value of IMET is to enhance the military efficiency and effectiveness of participating nations. Professional military competence is improved at all levels, thereby promoting self-sufficiency as well as furnishing many skills essential to nation building. This, in turn, provides a wide range of benefits to the United States in terms of collective security, stability, and peace. As foreign militaries improve their knowledge of U.S. military principles, military cooperation is strengthened. IMET fosters important military linkages throughout the world essential to preserving the security of U.S. friends and allies, as well as for advancing the global security of the United States.

In FY 98, we are requesting $50 million for IMET. This increase over the FY 97 enacted level will provide essential interoperability training to assist PFP nations as they move closer to NATO accession. It will also provide important funding for programs in Near East and South Asia, Latin America and the Caribbean, Africa, and East Asia and the Pacific. Additionally, I'd like to point out that over the past three years tuition costs for IMET students have increased about 25%. This increase is attributed partly to inflation, but mostly to the down sizing of our own military forces and training base. This decrease in our force structure and training base has caused overhead costs for foreign students to increase.

Promoting Democracy

The United States has a strong stake in supporting the growth of democracy globally. In countries such as Haiti and Cambodia, where the United States has invested significant resources and taken international leadership to stop collapse and crisis inimical to U.S. interests, assistance programs support democratic transitions, judicial reform, and reconstruction. In these and other countries in transition, assistance programs nurture the formal institutions of democracy and the organizations of a vital civil society, combined with balance of payments and other economic support measures designed to create employment and conditions conducive to international investment and trade. We are also requesting finding for programs to enhance the administration of justice, including assistance to police through the International Criminal Investigative Training Assistance Program (ICITAP) administered by the U.S. Department of Justice.

Through regional accounts, ESF supports carefully-targeted programs to assist democratic forces in emerging or threatened democracies, and, in some cases, programs designed to strengthen pro-democratic forces. Typical areas of assistance include technical assistance to administer and monitor elections, capacity-building for non-governmental organizations, judicial training, and women's participation in politics. In FY 1998, ESF for building democracy will continue to be used for a range of programs to help strengthen and consolidate democratic processes and institutions in countries that have recently embarked on a democratic course, or where democracy is threatened.

FY 98 Security Assistance Budget Request—Support for Democracy

(dollars in millions)

	FMF	ESF	Total
Angola		10.000	10.000
Africa Regional		15.000	15.000
East Africa Regional Asst.	5.000		5.000
Cambodia	1.000	37.000	38.000
Mongolia		7.000	7.000
East Asia Regional		6.250	6.250
South Asia Regional		3.000	3.000
Peru/Ecuador Peace		5.000	5.000
Haiti		70.000	70.000
Latin American & Caribbean	3.000	31.000	34.000
Human Rights & Democracy		8.000	8.000
AOJ/ICITAP		10.000	10.000
ME Democracy		5.000	5.000
Total	9.000	207.250	216.250

For FY 98, we are requesting $70 million to strengthen Haiti's nascent democratic institutions and foster economic development. U.S. assistance, in coordination with donations from the international community, will help consolidate Haiti's transition from military to civilian rule by enhancing the training of the Haitian National Police (HNP) and coast guard, fostering more effective and responsive democratic institutions, including an independent judiciary; facilitating private sector employment; and promoting sound environmental resource management and sustainable economic growth.

Cambodia is another country making the difficult transition to democracy following decades of conflict. The peaceful status of the country and the strength of the government are fragile. Cambodia's coalition government is struggling to build a democratic culture in the face of enormous challenges, including a weakening but ongoing threat posed by the Khmer Rouge insurgency. Our $37 million FY 98 ESF request will enable the United States to advance democratic and economic development through provision of technical assistance for health care, education, rural development, and democracy promotion programs, including legal, regulatory, and judicial assistance to the National Assembly and courts. The $1 million in military assistance supports ongoing efforts to develop the Royal Cambodian Armed Forces engineers' capability to build and improve civil infrastructure. The funds will be used to provide training and sustainment to maintain over 40 pieces of engineering equipment already granted to Cambodia as DoD excess defense articles.

We are also seeking $108.25 million in military and economic assistance funds to advance important democratic gains in Latin America, Africa, the Middle East, South and East Asia. We request for:

- Latin America and the Caribbean, $49 million for programs to promote and strengthen democratic institutions, local governments, police training, administration of justice, and the Regional Security System in the Caribbean; also to facilitate implementation of the Peru-Ecuador border dispute settlement agreement;
- Africa, $30 million for programs to support free elections, respect for the rule of law, and enhancing government accountability; support for Ethiopia, Eritrea, and Uganda to defend against Sudanese-sponsored aggression in the region; and support democratic institution-building and election preparation in Angola;
- East Asia, $13.25 million for regional programs to reinforce pluralistic civil society and accountable government, and in Mongolia to promote private sector-led economic reform and build democratic institutions through technical assistance in regulatory and legal reform;
- Middle East, $5 million to support democratic governance and basic human rights on a regional basis through programs managed by local and U.S. NGOs in countries of the region currently receiving little or no Peace Process-related assistance; and
- South Asia, $3 million to support the consolidation and strengthening of democratic systems, respect for human rights, and the rule of law in South Asia.
- Human Rights and Democracy, $8 million to respond to conflicts, human rights emergencies, and implementation requirements of international agreements.

Confronting Transnational Security Threats

With the dissolution of the Soviet Union, the proliferation of weapons of mass destruction, their delivery systems, and advanced conventional weapons now poses the gravest threat to the security of the United States and our allies. As Secretary Albright emphasized to you last month, arms control and non-proliferation efforts remain a key part of our foreign policy strategy to keep America safe. The objectives of our non-proliferation programs are to reduce the risk of war by limiting and reducing destabilizing forces, inhibiting the spread of weapons of mass destruction and delivery systems, and building confidence through measures which enhance transparency and verification of compliance with national commitments. In addition to enhancing our security directly, these measures also support other important U.S. interests, including economic and political reform in Russia and the other newly independent states, our economic interests in Asia and the Pacific, and our broader political efforts to resolve long-standing disputes in the Middle East and South Asia.

FY 98 Budget Request—Nonproliferation

(dollars in millions)

	IO&P	NDF	NIS	Total
NDFF		15.000		15.000
Science Centers			15.000	15.000
IAEA Voluntary Contr.	36.000			36.000
KEDO	30.000			30.000
Defense Enterprise Fund			5.000	5.000
Total	66.000	15.000	20.000	101.000

To help us achieve our overall nonproliferation objectives, we are requesting $101 million in FY 98. Through the Nonproliferation and Disarmament Fund (NDF), we will undertake a variety of bilateral assistance programs, including export control assistance. Under the International Organizations and Programs (IO&P) account, we will contribute to the International Atomic Energy Agency (IAEA) and support the Korean Energy Development Organization (KEDO). Under the FREEDOM Support Act, we are also seeking funding for the International Science Center in Russia, the Science and Technology Center in Ukraine, and the Defense Enterprise Fund (DEF).

The Nonproliferation and Disarmament Fund

The Nonproliferation and Disarmament Fund (NDF) was established in 1994 to implement specific nonproliferation projects. Since its inception, the NDF has funded numerous projects for dismantling and destroying conventional weapons and weapons of mass destruction and their delivery systems, and for strengthening international safeguards, export control, and nuclear smuggling efforts. Current NDF projects include:

- Elimination of SCUD missiles and their launch systems from Romania and Hungary;
- Dismantlement of South Africa's Category I missile production infrastructure;
- Assistance in the procurement of highly enriched uranium stocks from the former Soviet Union;
- Procurement of verifications and safeguards equipment for the IAEA;
- Procurement of seismic arrays in support of the Comprehensive Test Ban Treaty.
- Completion of the Phase I engineering assessment needed to convert Russian plutonium production reactors to a power only mode of operation;
- Provision of export licensing and enforcement assistance to Central Europe, the Baltics, and the former Soviet Union; and
- Successfil deployment of an automated system in Poland for tracking the export of sensitive materials.

To date, NDF has considered over 90 project proposals with an estimated cost of $120 million; and has approved projects totaling over $30 million. On March 5, we notified Congress of our intent to provide $12.2 million for new NDF activities, leaving an available balance of $10.6 million in the NDF. The FY 98 request of $15 million will continue to provide ending for proposals to achieve our goals of preventing the proliferation of weapons of mass destruction and combating nuclear smuggling.

IAEA Voluntary Contribution

For the United States, the most critical function of the IAEA is the implementation of safeguards to nuclear activities to deter, through timely detection, the diversion of material and equipment for nuclear weapons purposes. Safeguards establish the critical arms control precedent of voluntary verification of compliance with nonproliferation obligations, including on-site inspection, by a sovereign state.

For FY 98, we are requesting a $36 million voluntary contribution to the IAEA within the IO&P account to support safeguards and non-safeguards-related technical assistance. Safeguards are the principal but not exclusive U.S. concern with the IAEA. Another fundamental premise of U.S. nuclear nonproliferation policy, also embodied in the Treaty on the Nonproliferation of Nuclear Weapons, is the commitment to facilitate the exchange of equipment, materials, and scientific and technological information for the peaceful uses of nuclear energy. A significant portion of the U.S. voluntary contribution to the IAEA is used to fulfill this obligation. Because the vast majority of IAEA member states consider this objective of paramount importance, continued U.S. support for technical cooperation is crucial to maintain support for a strong safeguards system.

Korean Peninsula Energy Development Organization (KEDO)

KEDO is the international consortium established to implement the Agreed Framework between the United States and the Democratic People's Republic of Korea (DPRK) signed on October 21, 1994. The Agreed Framework will ultimately dismantle North Korea's nuclear weapons capability. KEDO's central task is to manage the financing and construction of the light-water reactor (LWR) project in North Korea, to provide annual shipments of heavy fuel oil to the DPRK, and to implement other aspects of the Agreed Framework. The U.S. role in this consortium is to organize and lead KEDO and, with the help of the Republic of Korea (ROK) and Japan, support the consortium in fulfilling its tasks.

Our FY 98 request for $30 million within the IO&P account for KEDO is essential to finance KEDO's administrative expenses and projects, particularly the provision of heavy fuel oil to the DPRK. Support for the LWR project and the majority of KEDO administrative expenses and heavy fuel oil deliveries will come from cash and in-kind contributions from other KEDO members, especially the ROK and Japan. Eleven countries, spread over five continents, have become members of KEDO, reflecting the organization's global character, composition, and significance. The U.S. contribution is necessary to demonstrate U.S. leadership and to supplement and leverage contributions from other countries. Without this finding, KEDO will not be able to operate or carry out its objectives, thereby weakening the credibility of U.S. leadership, jeopardizing the implementation of the Agreed Framework, and contributing to rising security tensions on the Korean Peninsula. Full funding of this request is the best way to promote U.S. objectives for peace, security, and nuclear nonproliferation in Northeast Asia.

International Science and Technology Centers

The International Science and Technology Center (ISTC) in Moscow, operational since 1994, and the Science and Technology Center in Ukraine (SYCU), which began to fund scientific research in early 1996, help to counter the weapons expertise proliferation threat by putting former Soviet weapons scientist to work on civilian projects. These projects benefit all Science Center members and partners, including—in many instances—U.S. universities, national laboratories and corporations, which participate as unfunded partners. This program seeks: 1) to encourage the transition to market-based economies; 2) to help find solutions to nationally-and internationally-recognized problems, such as nuclear safety, energy production, and environmental protection; and 3) to integrate MS scientists and engineers into the international community.

In FY 98, we anticipate providing up to $15 million under the FREEDOM Support Act to continue the important work of these two centers. The European Union and Japan also provide voluntary contributions to the ISTC, and Sweden and Canada contribute to the STCU. Procedures have recently been implemented to allow other governments, inter-governmental organizations, and NGOs (including the private sector) to participate in Science Center activities. To date, the ISTC has funded 202 projects in Russia, Kazakstan, Georgia, Belarus, and Armenia, with the participation of nearly 17,000 scientists and engineers, the majority of whom have expertise on weapons of mass destruction or their delivery systems.

Defense Enterprise Fund

Our FY 98 assistance for the MS includes $5 million for the U.S. contribution to the Defense Enterprise Fund (DEF), which is now expected to reach self-sustainability in 1999. The DEF, initially authorized by Congress and established with a grant from the DoD Cooperative Threat Reduction (Nunn-Lugar) program, was incorporated as a private, non-profit venture capital fund in March 1994. Responsibility for funding the DEF shifted to the State Department in FY 97.

Like other enterprise funds, the DEF assists the MS in the development of successful private sector entities which contribute to a stable market economy. However, the DEF focuses on the privatization of weapons of mass destruction (WMD)-related defense industries and conversion of WMD-related military technologies and capabilities into civilian activities. It provides both equity investments and loans to qualified joint venture initiatives which include personnel and/or facilities currently or formerly involved in research, development, production or operation, and support of the former Soviet Union WMD-related defense sector.

The DEF encourages private sector participation in the ownership and management of the entities in which the DEF invests, and only makes investments involving enterprises committed to privatization. U.S. assistance to the DEF significantly leverages private U.S. investment: every $1 we have provided to date has leveraged an average of $5 of private investment. Thus, the DEF supports both the national security objective of nonproliferation—eliminating WMD production capability—as well as economic reform objectives by promoting the development of market economies.

Mr. Chairman, these nonproliferation programs are both critical for the security of America and extremely cost effective. By making very small investments today to help other countries prevent the spread of sensitive materials and technologies, we obviate the need to spend larger sums in the future to protect ourselves against weapons that have fallen into the wrong hands.

Conclusion

Let me conclude by returning to the central point of my presentation: the ending that we are requesting directly increases the security of Americans and advances our direct interest in a stable, peaceful and prosperous international system. We undertake these programs to achieve specific objectives, each of which can be measured in terms of their successes, and each of which makes America and the world safer. U.S. security depends on promoting peace in the Middle East, building a new security order in Europe, preventing the spread of dangerous weapons, and helping foster emerging democracies.

Foreign assistance is an essential tool to pursue American interests abroad and our security at home. Without adequate funding, strong American leadership in the world and our ability to protect our vital interests will be at risk Strengthening our diplomatic efforts to address these threats now will help avoid the far greater costs, in lives as well as resources, of military interventions later. The support of this Committee is essential to achieving those goals and we are ready to work closely with the Committee and staff to fi1lly address any concerns and questions that you and they may have.

Mr. Chairman, I wish to thank the members of the Committee for the opportunity to provide testimony on the FY 98 budget request, and would be pleased now to answer any questions you may have.

Senator HAGEL. I would now like to call upon my colleague, Senator Sarbanes, from Maryland.

Senator SARBANES. Mr. Chairman, thank you very much. I will be very brief.

I was not able to here right at the outset. I want to join with you in welcoming General Rhame and Secretary McNamara before the subcommittee this morning.

It is interesting, that security assistance, which includes economic support funds, ESF, as well as foreign military financing, and other forms of military assistance, is by far the largest share of our foreign aid budget.

It does not always receive the same scrutiny and the focus and attention as some other components of the foreign aid budget. At $6 billion, that makes up almost half of the foreign aid budget, so

obviously, we need to pay some careful attention to it, as we reorient ourselves to new global challenges, and reexamine our national priorities.

Of course, one reason the security assistance budget remains at high levels, despite the end of the cold war, is that we have important interests in sustaining peace agreements, and supporting traditional allies.

Israel and Egypt account for the major portion of our ESF and FMF programs, but I think there is widespread recognition that such assistance is essential to the continued success of the Middle East peace process, and essential to sustaining Israel's qualitative edge against threats to the very existence, which continue to present themselves in that area of the world.

There are other elements, though, of this security assistance program, whose rationale I think is less clear. As military grants have declined overall, there seems to have been a very substantial expansion of other mechanisms and authorities through which the U.S. provides arms and training to foreign militaries.

IMET is slated for substantial increases in this budget, a new military loan program has been established for Eastern European countries, most of whom are still struggling to get their economies into some sort of decent shape.

Excess defense articles and defense draw downs have become a major source of weapons transfers, one I think that the Congress has not paid adequate oversight attention—to which the Congress has not paid adequate oversight attention.

We have this defense export loan guarantee facility, about which I have very substantial reservations, now just beginning its operations. We continue to have some cascading of conventional forms in Europe.

Last year, we worked on a bipartisan basis in this committee and with the House, and the administration, to enact a new law that would establish modest restrain on certain types of military transfers, and improve disclosure, monitoring, and reporting.

Later in this hearing, when I get to my questions, I want to address the implementation of that new act, so I look forward, Mr. Chairman, to this hearing this morning, and again, I want to thank you, and commend you for this series of hearings you are having with respect to the budget, which I can play a very important base for the committee later to take action on the authorizing legislation. Thank you.

Senator HAGEL. Senator, thank you.

I would like to pick up, if I might, on a little of what the ranking minority of this subcommittee referenced, as well as each of you, and if we could, stay in the Middle East here for a bit.

It has been noted on a number of occasions that Israel's prime minister, fairly soon after he took office, talked about moving Israel away from American foreign assistance.

Mr. Secretary, can you enlighten this committee on any discussions that have been had in that area, or anything you know about it, when we might start that, if we should start that, anything you care to comment on regarding that point?

Mr. MCNAMARA. Senator, I am not familiar with any specific conversations that are designed to immediately lower the level of as-

sistance that is now being given to Israel. I think it is obviously an objective of both Israel and the United States, as the peace process moves forward, to be able to reduce those levels.

The levels and their reduction are directly related, it seems to me, to the progress in the peace process and in the achievement of a comprehensive peace.

What is most important, it seems to me, is that as we move down the road toward a comprehensive peace, that there is a sense of security in Israel that will enable it, as I said in my opening remarks, to take those risks, to take those steps leading to peace, which, in turn, leads to the requirement of much less military expenditures by Israel, and, therefore, much less security assistance coming from the United States.

I do not know of any conversations that have immediately and directly addressed the question, for example, for fiscal year 1998.

Senator HAGEL. General Rhame, would you care to add anything to that?

General RHAME. No, sir, I would support it. I have not participated in any discussions either.

Senator HAGEL. Thank you.

Secretary McNamara, do you believe that the security assistance level that we are providing, have been providing, at the President's request, is adequate?

Do we need more, do we need less? Is this about right? Maybe you could break that down for us a little bit?

Mr. MCNAMARA. I think given the fiscal constraints under which we are operating, given the number of programs that we are conducting around the world, and the competing interests for those programs, I think we have, through compromise within the executive, and through consultations here on the Hill, come up with the best quantities and the best funding levels that we think are possible under the current circumstances.

I would not argue that in a better world, with fewer fiscal constraints, that we could not do better with more; indeed, we very well could, but I think we all recognize the real world that we are operating in, and, therefore, we have to do as much as we can with what is available given competing interests on, not only foreign affairs budget items, but also in domestic spending, defense spending, and other areas.

So, I think we are satisfied, we want to see those levels go up, and we think we can justify our request for the increases where we have indicated that we wish increases, such as in IMET and some other areas.

Senator HAGEL. Thank you.

General, would you like to respond?

General RHAME. Yes, sir. Mr. Chairman, I sit on the consultative committee with Egypt, that deals with how the security assistance resources are used in their 5-year plan, I have extensive conversations with representatives of the Israeli government on transfers and acquisitions, and in both countries, at any given time, you can see a need for more.

However, it is my view, after working this for the time that I have, that I think the balance is about right. I would support Mr. McNamara's view, given where we are in our resources in this

country and the status of the peace situation, that the dollars are about right in the program and where they should be.

Senator HAGEL. Thank you. Let me come right back to you on another point. The United States is, I understand, paying for F–16s for Jordan. With the military assistance that we have been giving to Egypt, and with our assistance programs to Jordan, at what point do you think those nations will be sufficiently strong enough that our programs will no longer be necessary.

General RHAME. First, Mr. Chairman, let me address the Jordan question. We started and embarked on a lease program for F–16s in FY 96 through a total appropriation of $100 million, and an appropriation of $30 million in this appropriation for FY 97.

This year, for FY 98, we are requesting $45 million for Jordan. The plan, our objective is to ask for another $45 million in 1999, which will complete the F–16 lease program with Jordan, which was King Hussein's number one priority with us, in his requirements.

Jordan's ground forces and naval forces continue to have many needs, many requirements. At this time, we have prioritized with their leadership, the F–16 program and have not been able to address their ground forces requirement in FMF dollars.

However, we have executed last year a draw down in the amount of $100 million for Jordan, in which we have flowed some major items of equipment and spares to their ground forces, a C–130 to their air forces, and some things to their navy, and also have watched very carefully older spare parts, which fit their equipment, and excess ammunition, and light trucks and medium trucks, and have provided those to Jordan through the excess defense article programs, in accordance with the approval of the State Department, and the appropriate notifications to the committees of Congress.

Senator HAGEL. Mr. Secretary.

Mr. MCNAMARA. I agree. I think what we have done is we have responded, following the peace agreement between Jordan and Israel, to the main strategic interests and concerns of Jordan with this program.

We have not limited ourselves to that, however. In the request for this year, we have an ESF request which would permit us to undertake expansion of programs aimed at expanding Jordan's economic reforms and improving Jordan's overall economic situation, because we think, particularly in the area, for example, of water shortages, that these need addressing.

I will point out, as kind of a footnote to this, that even with the Jordan program and the other areas where we have asked for some slight increases, that the overall percentage, or proportion of the ESF and FMF requests for fiscal year 1998, for the Middle East, is lower than the percentage that was requested in 1997. So, I think we are getting the balance about right.

Senator HAGEL. Moving around in that area a little bit, I have heard reports that the administration is considering selling F–16 aircraft to Saudi Arabia. As you know probably better than most, there has been some concern in this country regarding trying to get at least a perceived cooperation from the Saudi government regarding the bombing over there a year ago.

Is this a sale, first of all, that might take place politically in the environment that we are dealing in now, is this something that we should be doing?

Mr. MCNAMARA. Mr. Chairman, the fact is that over the period of the last 4 or 5 years we have been talking with the Saudis on a number of occasions, and General Rhame can expand on this, about replacement of their F–5 aircraft, which are coming to the end of their life cycle.

As that F–5 problem, if you will, approaches, it is clear that the Saudis are going to have to replace those aircraft with newer aircraft.

The possibility of F–16s being that replacement aircraft exists, but as of right now, there has been no request from the Saudi government for such a replacement, even though there have been press reports reporting on conversations with American industry.

We believe that it is possible to have such a replacement program that will keep Saudi military readiness, which is very important to us and vitally important to both regions at its current level. When such a request comes in, and if such a request comes in, we are going to give it very serious consideration. We will be consulting throughout the executive branch, with Congress, and with other interested parties about such a potential sale. But I want to emphasize that that has not happened yet.

With respect to the Khobar Towers, I think we are getting increasing cooperation from the Saudis in that area, and that relatively short-term situation, I think, should be clearer over the course of the next few months.

I do not anticipate that we will make any linkage with a request for aircraft at this point, I do not think that is necessary.

I do want to also point out that as we examine this issue, we will examine it in the context of the Middle East peace process, of Israel's security situation, and our commitment to Israel for maintaining the qualitative edge.

Senator HAGEL. Thank you. General.

General RHAME. Sir, I would add, I served there for 2 years before coming to this job as the chief of the U.S. mission there.

We have worked on the replacement of the F–5 over the last 5 years with the provision of capability data, price and availability, those kinds of questions. It would be my view that they have a clear aim to replace their F–5. We would hope, in the long term, that it would be a U.S. platform.

It would also be my view that the decision to proceed with that acquisition also would be tempered by the financial ability within their trust fund to pay for the FMS expenditures, which is one of the other things that I supervise within the Department, is the administration of their trust fund to pay for the obligations owed to U.S. industry for previous acquisitions.

It is my view that right now at this moment, I believe that Government will delay giving us a letter of request to proceed with the acquisition for a year or two, until they have better bought down the owed balance in their trust fund for previous FMS acquisitions.

I would agree with Mr. McNamara that when the letter of request is forthcoming, it will be carefully evaluated. Technology will be a key issue, which will be discussed at great length between De-

fense and State and will be carefully looked at before we make a clear indication of how we intend to proceed.

Senator HAGEL. Thank you.

Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

Gentlemen, the first question I want to put goes to the military authorities bill, to which I made reference in my opening statement, we enacted last year, P.L. 104–164.

That reinstates a report, listing the value and quantity of defense articles, defense services, and IMET provided each country over the past year. The President was required to send up that report not later than February 1.

Today is March 12th, and to my knowledge, we have still not seen the report. First of all, am I correct in that statement, and if so, what is the status of this report?

Mr. MCNAMARA. Senator, you are correct in the statement, and we are working on that report, and we expect it to be forwarded very soon.

Unfortunately, in compiling a massive amount of export license data that the report requires, we have had some unforeseen problems with the computer data that need to be assembled.

We are working to resolve the problems, and, indeed, it is a technical delay at this point that is causing the report not to be already here before the Congress. But we expect to get this data assembled properly, put together very quickly.

Senator SARBANES. Could you give use some definition of the phrases "very soon" and "very quickly"?

Mr. MCNAMARA. I would hope within weeks.

Senator SARBANES. Within weeks. Less than a month?

Mr. MCNAMARA. If possible, it will be up here in less than a month. Unfortunately, Senator, I do not have a specific—I cannot absolutely guarantee you that we can do that. But as I say, it is a question of assembling the data and getting it up here, and we have had these problems.

I am not a computer expert, so I am not, myself, competent to say just exactly how they are going to go about solving that problem.

Senator SARBANES. Well, let it be noted that there is an awareness here of the fact that the report is not yet in, and we are looking for this report. We just enacted this legislation, and we want to see this legislation implemented.

Now, I would like to turn to the FMF loans and loan subsidies. As I understand it, in the budget you have submitted, you are taking the FMF loan level up from $540 million to $700 million, is that right——

Mr. MCNAMARA. I believe that is correct, sir.

Senator SARBANES. [continuing]. and you are taking up the FMF loan subsidy to support of that level from $60 million to $66 million, is that correct?

Mr. MCNAMARA. I believe that is correct.

Senator SARBANES. So you are raising the loan level by 30 percent, but you are raising the subsidy level by 10 percent. Now, this has a little bit of a fishes and loaves——

Mr. MCNAMARA. Pardon?

Senator SARBANES. This has a little bit of a sort of fishes and loaves perspective, if I may. It is a biblical reference, Mr. Secretary.

Really, it is close to a miracle here. I mean if you can continue to this, we ought to bring you up here to solve all the budget problems. How do you do that? I am just kind of interested.

Mr. MCNAMARA. Well, I am not sure. If I understand it correctly, it probably has to do with the countries that are going to receive the increase, what their particular credit rating, and status, and standing is, and, therefore, how much of an amount needs to be actually appropriated for the 1998 fiscal year, in order to support an amount of loan that would then be underwritten by that appropriation.

Senator SARBANES. Let us pursue that for a moment. As I understand it, you are supporting—in fact, you state in your testimony, you are supporting $297 million in FMF loans for Greece and Turkey, with $46 million worth of subsidies. Now, that means you are supporting a balance of $402 million with $20 million worth of subsidies. That is a pretty good trick. How do you accomplish that?

Mr. MCNAMARA. In the case of Turkey, the fact is that we had, I believe, a larger amount in the preceding fiscal years for the Turkey loans, and that currently, what we are asking for does not raise the amounts that we were requesting for the appropriated funds at the same rate as it raises the amount of loans that is possible to be underwritten by those funds.

Senator SARBANES. No, no, no. You are missing my question. Let me refer to your statement, your own statement, at pages 9 and 10, the statement you submitted to the committee.

On page 10, you say, "Our fiscal year 1998 request of $46 million for the subsidy cost of a total of $297 million in FMF loans for Greece and Turkey will support sustainment of U.S.-origin equipment."

Now, I may come back and ask about that, but for the moment, let us set that aside.

So, you are doing $297 million on the basis of a $46 million subsidy cost, correct?

Mr. MCNAMARA. Correct. That——

Senator SARBANES. All right. Now, let us turn to the rest of it.

On page 9 you say, referring to Central Europe and the Baltics, "Our fiscal year 1998 request for $20 million in FMF loan subsidies will provide $402 million in market rate loans."

So, in the one instance you take $46 million to support under $300 million, and in the other, you support $400 million with $20 million, half as much.

Mr. MCNAMARA. Correct.

Senator SARBANES. Less than half as much. How do you do that? That is a nice trick.

Mr. MCNAMARA. Well, the amount that is required to be appropriated in order to support the loan depends upon the country that is receiving the money, and what the credit rating of that country is——

Senator SARBANES. OK.

Mr. MCNAMARA. [continuing]. for the loan designated, or expected to be designated, for that country. If a country's rating is X," then a certain amount of money is required. If the country's

rating is worse than that, than more money needs to be appropriated in order to cover an equivalent amount of loan.

Senator SARBANES. Which countries are receiving the $402 million in FMF, so we can make some judgment about their credit rating?

Mr. MCNAMARA. Well, I do not have that here in front of me, but we can certainly get that for you. But it is essentially the countries in the defense loan program in Central Europe.

Senator SARBANES. Well, I have been looking for lists of those countries, and I have not been able to get it, and I am not sure it has been submitted to the Congress.

Mr. MCNAMARA. Three of them are Poland, Hungary, and the Czech Republic, and I do not know—for fiscal year 1998—there conceivably could be some others, which would then cause these figures to be adjusted.

Senator SARBANES. Have you allocated out the $402 million, country-specific?

Mr. MCNAMARA. No, but we have done it——

Senator SARBANES. If you have not done that, how are you able to assess the credit risk, and thereby reach a specific determination on the amount of loan subsidy?

Mr. MCNAMARA. Well, you will notice the loan says approximately $402 million, and the reason for the word approximately is because, indeed, the final loan that would be, or loans—plural—that would be underwritten by that depends upon how much goes to each of the countries, and what each country's credit rating is.

Senator SARBANES. You surely do not regard that as an adequate response, do you? I mean how were you able to calculate a $20 million in loan subsidy required to support $402 million, unless you hide it country-specific, and did an analysis of the credit risk of the country, or is it just sort of kind of a floating figure?

Mr. MCNAMARA. No. I think it is country-specific, with respect to Czech Republic, Poland, and Hungary.

Senator SARBANES. How much of the $402 million do they get?

Mr. MCNAMARA. At the current time, they would get all of it, unless we were to come here and add other countries, that is suggest that there be other countries added to that. But right now, it is based, I believe, on those three countries.

Senator SARBANES. Is that right, only those 3 countries are going to receive the $402 million?

Mr. MCNAMARA. Yes.

General RHAME. In 1997, Senator Sarbanes, the loans were earmarked for those 3 countries in Central Europe, FMF loans for Central Europe.

Senator SARBANES. How much for those?

General RHAME. The subsidy, sir, was $20 million. I do not know——

Senator SARBANES. But how much loan?

General RHAME. The loan value was $242 million.

Senator SARBANES. $242 million, and you earmarked $20 million, is that right?

General RHAME. That is correct.

Senator SARBANES. For the year we are in right now?

General RHAME. 1997. Yes, sir. 1997.

Senator SARBANES. Next year, you are going to do $402 million, which is, what, about a 60 percent increase, and you are going to do it with the same amount of loan subsidy, is that right?

General RHAME. The current projection of the credit ratings of the countries involved, that would be correct.

Senator SARBANES. Who makes these projections?

Mr. MCNAMARA. OMB is the one who makes the projections, and who determines the credit rating.

Senator SARBANES. Well, I would be interested in seeing an analysis. As I understand what I am now being told, is that you have gone from requiring $20 million to be set aside in the budget to cover these loans in fiscal 1997, to support $242 million, and in fiscal year 1998, in a 1-year period, the same amount will support $402 million.

So, your analysis of the credit rating, as such, that you are able to take it from $242 million to $402 million, which is an increase of $160 million, that is a 60 percent—more than a 60 percent increase, and sustain it on the same amount of loan subsidy, is that correct?

Mr. MCNAMARA. That is the projection, Senator.

Senator SARBANES. Well, I am interested in how that was arrived at.

Mr. MCNAMARA. Let me try and get you the details. I will go back and talk to OMB, and give you an answer.

I believe, as I said, that it has to do with the different credit ratings of the countries, and could possibly have to do with what is the going rate for credit, and, therefore, how much the subsidy is buying down from that rate.

Senator SARBANES. On Greece and Turkey, how is that allocated out between the two countries? I mean in your statement you group them.

You are going to provide us with the analysis that supports a submission, with respect to these Central European countries, that makes it reasonable and accurate to take the loan amount from $242 million to $402 million, without increasing at all, the amount of loan subsidy, is that correct, you are going to submit that to us.

Mr. MCNAMARA. I will so submit.

Senator SARBANES. OK. Now, let us turn to Greece and Turkey. How is that divided between the two?

Mr. MCNAMARA. $175 million for Turkey, and $122.5 million for Greece, and the subsidy division is $33.15 million for Turkey, and $12.85 million for Greece.

Senator SARBANES. All right. Well, that reflects, I guess, the weakness of the Turkish economy, is that correct?

Mr. MCNAMARA. Relative to Greece, yes.

Senator SARBANES. Well, and relative to your Central European countries.

Mr. MCNAMARA. And also relative to Central Europe, correct.

Senator SARBANES. In fact, there the subsidy is 8 percent of the total, Greece, it is 10 percent of the total, and Turkey, it is 19 percent of the total, correct?

Mr. MCNAMARA. Correct. Once again, these are OMB calculations, based on the credit ratings.

Senator SARBANES. OMB gives you these figures, you do not provide them up to OMB.

Mr. MCNAMARA. It is determined by OMB.

Senator SARBANES. I would be very interested in seeing that analysis.

Now, let me ask you, in your congressional presentation document for fiscal year 1998 you state, "Grant ED aid to Albania promotes sovereignty, stability, and security in the volatile southern Balkans. Fiscal 1996, the latest year for which we have figures, the U.S. delivered over $33 million worth of excess defense articles at no cost to Albania, more than any other country in the world, except Egypt, and vastly so."

Now, what kind of excess defense articles did we provide, and how have they promoted stability? Let me just take the question a step further, the *New York Times* editorialized only a few days ago that we should stop military assistance to Albania.

What is the position of the—is any thought being given to that in the Department?

Mr. MCNAMARA. I would have to get you the specifics on what was provided, I do not have it here. I do know that a significant amount of it had to do with transport and other non-lethal equipment that was provided to the government.

Our objective there was, in fact, to maintain stability in Albania. Circumstances totally apart from the U.S. security programs, and, indeed, from the security area, have led to a great deal of political unrest and instability in Albania, which was our hope to avoid.

It is not beneficial to the United States or to that region and subregion that Albania be destabilized. That has come about despite our best efforts. It sometimes happens.

What we are now doing is we are looking very carefully at our——

Senator SARBANES. Do you think the fraudulent elections of last year contributed to the potential for instability in Albania?

Mr. MCNAMARA. I am not expert in that area, but I believe that there were a number of factors that had to do with elections, democratic institutions, the weakness of those institutions, this financial scheme that appears to have caused enormous losses and a great deal of economic hardship to segments of the population, in fact, maybe most of the population, I am not sure. All of those, I think, were contributing factors.

Senator SARBANES. Does the Department have a firm position on whether we should stop military assistance to Albania at this time?

Mr. MCNAMARA. I do not believe that we have determined that we will stop all military assistance to Albania at this time. We are reviewing what the situation is in Albania, and what the proper policy——

Senator SARBANES. Now, Burns was asked about this at a State Department briefing, and he made reference to the fact, he was asked a broader question on assistance generally, and he said, "Well, some of that assistance goes to non-governmental organizations, and is designed to promote democracy building, and respect for human rights, and so forth."

The military assistance does not go to non-military organizations, does it.

Mr. MCNAMARA. No.

Senator SARBANES. No. It goes to the government.

Mr. MCNAMARA. Yes, sir.

Senator SARBANES. It seems to me that the administration ought to be considering terminating it, at least the military assistance.

Mr. MCNAMARA. Well, I am sure that is being looked at along with a number of——

Senator SARBANES. Well, why do you not take that message back with you, if you would. Let me turn to co-production. Increasingly, as I perceive it, there is a growth in co-production agreements, under which U.S. defense companies do not merely sell finished weapons to foreign countries, but help those countries to build the weapons themselves.

Now, it seems to me that such agreements are likely to lead to the export of the very U.S. jobs which we claim we are saving by allowing the sales to go forward. In other words, we may save a few jobs in the short run, but we are certainly guaranteeing their loss in the medium and long run.

Second, it means transferring some of the technologies that give us our strategic advantage, perhaps losing control over the weapons that are manufactured, and then may be sold to third countries.

What is the general position on co-production agreements, and how are these concerns I have outlined being addressed?

Mr. MCNAMARA. Well, Senator, I can start from the—you have listed three concerns, as I have noted them. Let me start with the third, and that is the loss of control of the end items that are produced as a result of the co-production.

The controls, when there is co-production, are the same as the controls that we place on end items that are exported from the United States as end items, so that the controls on, for example, a tank or a gun that might be produced in a co-production arrangement is very similar, and it requires the co-producing country to come to the United States to request permission for the sale to other countries.

We have agreements with the co-producing country as to where it can sell, what it can sell, so we do retain the control over the co-produced item in much the same way as we maintain the control of an item that would be exported in finished form from the United States.

Senator SARBANES. How do you sanction that?

Mr. MCNAMARA. How do we sanction that? Well, the sanctions would be the same as the sanctions that are available if the item were sold from the United States.

Senator SARBANES. If a country develops a productive capacity, then it can proceed with that, cannot it not?

Mr. MCNAMARA. Well——

Senator SARBANES. I mean I take it when you sell them—if they then use it, you will say, "Well, we will not sell you any more," is that correct?

Mr. MCNAMARA. Well, there is that, and——

Senator SARBANES. So if we produce the item here and sell it to them, and they then violate the agreement, what is the sanction in that instance?

Mr. MCNAMARA. That you stop exporting, and with co-production, it is the same sanction, in essence, because it is co-produced. That is to say, the APC, or the tank to be produced in that country requires production in the United States, and that gets back to your first concern, and that is the export of jobs.

The fact is that jobs are there. There is some work, and, therefore, presumably some loss of jobs by doing some of the production in country "X," but there is also production that takes place in the United States, particularly of components that go into the final assembly, in which the jobs here in the United States are increased by the fact that there is more production of that equipment here in the United States than there would be were there not such an agreement.

For example, if such an arrangement were struck between a country and Great Britain, then Great Britain would have the additional production of generators, tank treads, and other components that would go into a co-produced product in a third country.

Senator SARBANES. I thought that the co-production, though, was leading inevitably to increased production abroad and less here, is that not the case, even when it may start out with a fairly reasonable allocation between the two countries?

The countries entering into it are invariably moving to have their own arms industry, and have not these agreements, over time, shifted continuously toward more and more of the production being done abroad rather than here?

Mr. MCNAMARA. Well, since these co-production agreements are in large measure put together with private enterprise, they have a major interest protecting their job base and market here in the U.S. I do not know whether if you look just at the end product——

Senator SARBANES. Why is that?

Mr. MCNAMARA. [continuing]. it is probably——

Senator SARBANES. Why is that? If you are an international firm, they may make a significant profit out of the production abroad, rather than a production here, depending on the nature of their contracts with the producing country, might they not?

Mr. MCNAMARA. That might be the case, but I believe it is true that—if you look at just the end product, I think what you are saying is probably correct, that the number of tanks that would, therefore, be produced here in the United States is less than if it was all done in the United States, but if you look at the components that are then produced here in the United States to be put into these co-produced items in a foreign country, I am not sure whether the equation is the same.

Senator SARBANES. I invite you to look at some of the statements that these ministers of defense production make in some of these other countries, because it is invariably along the lines that they are going to buildup their own capacity to be producers, that this is simply a way station along the track to becoming an arms producer themselves.

Of course, once that happens, the argument you have just advanced, about which I have some skepticism even in and of itself, but that argument would cease to apply at that point, would it not, on the job front?

Mr. MCNAMARA. It may and it may not. If it is a U.S.-produced item, then the controls would be maintained on that. So also, if half or less than half of the co-production occurs in the United States, then that item that comes out of the factory in that country is going to be controlled by the United States.

If a number of countries take on these co-productions, it has been my experience that the reason they do it is for the short-term job benefits, not that they expect to be able to sustain a wide-ranging industry independent of the co-producing countries working with them, the United States, in some cases.

Senator SARBANES. Well, I think we are losing jobs, and I think we are giving away a significant defense capacity. This is something I will come back to.

Let me ask you this question. Recently, an article in the *New York Times* reported that the U.S. has approved the sale of AMRAAM missiles to the UAE and Thailand. Is that correct?

Mr. MCNAMARA. It is not completely correct, Senator. In the context of the purchase of American aircraft platforms, there have been request for missiles from those two countries, and we have responded, in the case of the UAE, that in connection with a purchase of those aircraft, that we would entertain and commit to the sale of the AMRAAM missile to the UAE, but only in the context of the purchase of U.S. aircraft.

In the case of Thailand——

Senator SARBANES. Well, let me read to you from this article.

It says, "Until now, those missiles have been sold only to NATO allies, and even countries such as Saudi Arabia and Egypt have been turned down on their request for the same missiles." After the sale to the United Arab Emirates, Thailand demanded the same missiles. "We caved to them as well," said a State Department official in Washington. "It shows how the threshold gets past. Now, Saudi Arabia and Egypt, which have been turned down in the past on a request for AMRAAMs, are expected to come knocking again, and this time it will be hard to say no," an American official said this week.

It sounds pretty accurate, does it not?

Mr. MCNAMARA. Senator, I think that whether it is hard to say no or not hard to say no, there are times when we say no even if it is hard to say no. I am not saying in the specific case cited in that article that we will or will not, we have not gotten a request at this juncture.

In fact, we treat each of these cases separately, on a case-by-case basis. In the case of the United Arab Emirates, it was the decision of the administration that there was a serious security concern that could be met by the aircraft, and if those aircraft were sold, that we were willing to sell AMRAAM missiles for those aircraft.

That does not necessarily mean that any other case that particular comes up will get an agreement for the sale of AMRAAM. They will be treated on a case-by-case basis, and it is very possible that the sale will not be agreed to.

Senator SARBANES. Now, this article says, and let me just quote it, "These days American officials say it is business, not ideology that is driving sales. During the cold war the Pentagon advocated restrictive policies on arms sales, particularly sophisticated weap-

ons that might fall in enemy hands. Now the military services push the arms trade as a way of helping defense contractors."

Is that correct?

Mr. MCNAMARA. I do not think any more so than in the past. I think "ideology." I am not sure what that means. You are asking me to comment on an article in which I see a number of inaccuracies and suppositions that are not accurate, and, therefore, it is difficult.

I would rather address the issue myself, rather than reply to an article that I have not read.

Senator SARBANES. Was there an intense debate within the administration, including sharp opposition from the Arms Control and Disarmament Agency, to the sale of these AMRAAMs?

Mr. MCNAMARA. There was a substantial debate within the administration as to whether or not the AMRAAMs ought to be sold and where they ought to be sold.

Let me correct another inaccuracy in the article with respect to Thailand. We have not yet released the AMRAAM to Thailand. With respect to Egypt and Saudi Arabia, which I think they were mentioned in the article, we have——

Senator SARBANES. We have not decided to sell the AMRAAM to Thailand.

General RHAME. No, sir, we have not.

Mr. MCNAMARA. We have not yet released them. That is correct.

Senator SARBANES. What does the word "release" mean?

Mr. MCNAMARA. Release means that we have not told the Thais that we will send them the AMRAAM missile. We are still in the—we are still talking to them about it.

Senator SARBANES. So it is still an open decision.

Mr. MCNAMARA. It is a decision that is in progress right now. We do not want to be the first to introduce that capability into the Southeast Asian region, and, therefore, we are hoping that we can see a policy of restraint practiced in the region by the states in the region.

Senator SARBANES. Well, I want to be clear on what you are telling me, because I am hearing a lot of phrases that I cannot sort of nail down. What is the status of providing this missile to Thailand?

Mr. MCNAMARA. The status is that we have not yet released the missile.

Senator SARBANES. No, I do not want the word "released." I do not understand what the word "released" means.

Mr. MCNAMARA. We have not yet sold the missile to Thailand.

Senator SARBANES. Have you made a decision to sell it to them?

Mr. MCNAMARA. We have told the—no, we have not introduced a beyond-visual-range missile, which is what the AMRAAM is, into the region, and we believe unless there is a comparable beyond visual range missile released into the region that it would be best that there not be beyond visual range missiles in the region. We are talking to the Thais about this.

Senator SARBANES. Well, now Malaysia is getting the MG–29s from Russia.

Mr. MCNAMARA. MG–29s, I believe. Yes, sir.

Senator SARBANES. Are they going to get sophisticated missiles for the MG–29?

Mr. MCNAMARA. We have no information that they have the equivalent or roughly the equivalent with the BVR capabilities of the——

Senator SARBANES. What you are telling me is that you are not going to provide this missile to Thailand unless someone else in the region gets a comparable missile, but if that happens, then the Thais will get it, is that right?

Mr. MCNAMARA. That would be the import of the policy line.

Senator SARBANES. Now, we are complaining about Russian and South African arms sales around the world, is that correct?

Mr. MCNAMARA. We have talked to the Russians and South Africa about arms sales that concern us, with respect to specific countries. Not around the world. I am not sure what around the world means.

Senator SARBANES. Have we dropped our policy of restraint on the sale of advanced aircraft in Latin America?

Mr. MCNAMARA. Yes, we have. To Russia, are you talking about?

Senator SARBANES. Pardon?

Mr. MCNAMARA. Do you mean to Russia?

Senator SARBANES. No. In Latin America.

Mr. MCNAMARA. I am sorry. I missed the question.

Senator SARBANES. Have we dropped our policy of restrain on sales of advanced aircraft in Latin America?

Mr. MCNAMARA. I am sorry. I thought you were still asking about Russia. No, we have not. The policy of the United States with respect to advanced weapons systems, including advanced aircraft in Latin America, is under review.

The situation in Latin America, politically, economically, socially, has changed dramatically in recent years. The need for reasonable modernization of Latin American armed forces is an issue that is very much alive in the region.

Senator SARBANES. Now, if country "A" in Latin America modernizes, then, of course, country "B," its neighbor would then have to modernize, is that right, and country "C," which is a further neighbor of the two?

Mr. MCNAMARA. It is conceivable, but what modernization means is another question, and that is one of the items that we are discussing with our Latin partners, that there be modernization in a context of restraint, in a context in which it does not lead to either arms competition or to regional instability.

Senator SARBANES. Well, why will it not invariably lead to that? What is the modernization directed toward, if it is not some other party in the region?

Mr. MCNAMARA. I think every country, Latin America, and other regions, considers that the legitimate and modest self-defense capability is essential to them as a nation, and that is true in Latin America as elsewhere.

Senator SARBANES. For what purpose?

Mr. MCNAMARA. For the purpose of protecting their borders and defending their——

Senator SARBANES. Against their neighbors.

Mr. MCNAMARA. Against neighbors and more distant——

Senator SARBANES. Well, why can they not do that at a lower level of arms technology instead of at a—if you take one to a higher level, you are then going to have to take the rest to a higher level, will you not?

Mr. MCNAMARA. Well, Senator, the problem is—let us talk about aircraft. As aircraft come to the end of the life cycle, they start falling out of the skies, or they do not make it into the sky, because they cannot be sustained, the aircraft are either replaced, or the air force falls into disuse.

When they get replaced, the older aircraft are no longer produced. So, eventually, after an extended period of time in this situation, one could imagine that they come to the conclusion that they are not going to have fighter aircraft, or they are going to have more advanced fighter aircraft, because that is all that is available.

Senator SARBANES. Are you telling me that is the situation that prevails in Latin America?

Mr. MCNAMARA. I am saying that in certain countries in Latin America their aircraft are coming, as one projects out several years, in fact, up to 5 to 10 years out, that these aircraft are coming to the end of their life cycle, and, therefore, they must be replaced or there will be no aircraft for the air force to fly, no fighter aircraft.

These countries, in fact, are spending lesser amounts now than they have in the past on their military budgets, some of them dramatically so, for example, Argentina. We are talking to these countries and they are talking to each other about how they go about modernization in a way that does not disrupt either the downward trend in defense expenditures and the maintenance of social and other programs that are very important to these democratic governments. But at the same time, that a legitimate national defense structure remains in place in these countries.

It would be unrealistic and actually a policy doomed to failure to say that they require no defenses, no air forces, no fighter aircraft.

How one goes about, therefore, in this imperfect world balancing the requirement of other needs with a legitimate national defense. This is the desirable goal: That those legitimate defenses not either take excessive amounts of their budgets, do not lead to regional instabilities, and do not create arms competition and arms races. This is what we are doing.

Our policy of restraint, which we are discussing with the Latin countries, is the result of a number of bilateral and multilateral contacts and discussions in the region, among the countries themselves, discussing with each other. It leads us to believe that we can, in fact, practice a policy of restraint, and does not lead to instability in an arms race in Latin America. But it does not mean that we embargoing the sale of fighter aircraft. To do so, I think, would be a failure.

Senator HAGEL. Senator, may I ask a follow up question on this point?

Senator SARBANES. Sure.

Senator HAGEL. When do you think the administration will, in fact, have a decision on this issue?

Mr. MCNAMARA. I asked that before I came up here, Senator, and I was told, soon, but it is, as they say, above my pay grade,

and I do not have an answer as to exactly when. I would expect that the issue certainly is going to be a topic of discussion when the President visits the region, and that certainly will be an event that will require a review of the policy.

Whether or not the decision will be made before or after that visit, I cannot say.

Senator SARBANES. When is that going to be?

Mr. MCNAMARA. I believe he goes down in May.

Senator SARBANES. So I take it that the soon, in this context, is later than the very soon that was used in the context of the annual report, would that be correct?

Mr. MCNAMARA. In the case of the annual report, I have more control over that, and, therefore, I will say, very soon. In the case of the second, I just do not know.

Senator SARBANES. OK.

Senator HAGEL. General, I do not want you to feel left out.

General RHAME. I do not, sir.

Senator HAGEL. Let me ask a question regarding the part of the world that Senator Sarbanes has been talking about. I am a little confused on the ESF account being used for programs that are, at least the way I understand them, similar to developmental assistance programs, AID funds.

I want to focus on Haiti for a moment. I think you have requested $70 million in ESF funds for Haiti, and really, we are going to come back to you, Mr. Secretary, and I would be very interested in both of your comments on this, but let me quote, if I have accurate information here, on your $70 million request for Haiti out of the ESF fund.

"For fostering more effective and responsive democratic institutions, including an independent judiciary facilitating private sector employment, promoting sound environmental resource management, and sustainable economic growth."

How does this differ from our large developmental assistance programs that AID is funding?

General RHAME. Mr. Chairman, I do not do economic support funds in defense, I would have to defer to Mr. McNamara.

Mr. MCNAMARA. In trying to put Haiti back on its feet, both economically and socially, we have a number of programs down there, some of which are directed at raising the economic level through ESF, and through other programs, for the transition period that Haiti is now going through, from a united tyrannical regime, to, we hope, a functioning and sustained democracy.

But also, in moving in that direction, some of the problems had to do with law and order, and, therefore, police functions, some of them had to do with establishing a judicial system and a court structure that leads to a functioning justice system, and a sense, among the population at large, that justice is being carried out.

Therefore, we have taken some of the ESF, other funds, and devoted it to strengthening the law and order judicial institutions in Haiti, that we think are necessary for a democracy to survive in that country, as, indeed, a functioning system of law and order and judicial institutions are necessary in any democratic society.

Senator HAGEL. But how does that $70 million differ from what AID is doing down there? I do not disagree with what you are say-

ing, but I am not sure where that $70 million is going specifically, and how it differs from what AID is doing.

Mr. MCNAMARA. Well, I think that the main difference, as I understand it, I do not have the specifics here in front of me, maybe someone behind me would be able to find it, but the AID programs are primarily aimed at getting the economy running, and getting a market economy in place in Haiti.

The ESF that is devoted to security and to judicial programs are aimed at strengthening judicial institutions, the Haitian police, and other institutions.

There is also an effort under way, which is not aimed at economic development, subdemocracy-building programs that are designed to assist the Haitians in their election processes, in establishing political parties, and opposition, loyal opposition within the Haitian political spectrum. There is a range of programs going on.

Senator HAGEL. Do you believe we are making some progress, sir?

Mr. MCNAMARA. I have been down to Haiti a number of times since we ousted the dictators, and I think it is very clear that we are making progress. I think it is clear that we have not succeeded completely yet.

We knew when we went in there that we were looking at a long-term program. One does not take, after so many years of dictatorship and oppression, one does not take a country into a stable democratic phase immediately.

I refer to it as a transition period, and, indeed, we are, but there has been progress. For the first time in the history of the country, we had the successful conclusion of one Presidential term, a free election, a free and fair election, and the inauguration and installation of a successor, and the successor is now undertaking to carry on the Presidential functions, with good expectations that there will be a successful election and another president freely elected.

That, in Haitian terms, is a historic process that has not occurred before. So, yes, we are making progress, but no, we have not finished, and neither have the Haitians.

Senator HAGEL. General, I want to go back to some of the earlier conversation that Senator Sarbanes was having with Secretary McNamara on Latin America, and the policy that the administration is going to be coming forward with soon.

How much involvement do you and your people have in helping craft that policy that we will be seeing come forward, I guess timed with the President's trip in May?

General RHAME. Sir, we have worked extensively with our Assistant Secretary for International Security Affairs, Under Secretary of Defense for Policy and the Secretary himself, to make sure that the Department of Defense's position is clearly understood, and is represented as the policy being formulated by the administration, and we have played quite extensively in it.

I deal a lot with Latin American letters of request for military assistance, sales, et cetera, and everything has to be worked with the State Department, in sync with the current policy.

Senator HAGEL. Now, it is my understanding that some of the countries in Latin America are in the process of negotiating with or are close to signing contracts.

I have some information here concerning Peru, for example, that they have purchased MIGs, Chile is looking at French aircraft, Brazil is looking at Russian, French, and Swedish aircraft. Does that concern you, that we are getting left behind here?

General RHAME. Sir, it is our understanding that Peru has purchased MIG–29s. They are also looking at another Russian aircraft. We know that there is a competition going on in Chile, in which they have asked for bids and proposals.

It is our belief that the French are competing with the Rafale, it is our belief that the Swedes are competing with the JAS–39, and we believe in the case of Chile that as advanced aircraft are approaching, the technology has to be looked at very carefully, and yes, it is a concern, because while these air forces are going to modernize, we would like in Defense the ability to very carefully, look very carefully on a case-by-case basis of how we are allowed to develop those air forces.

Senator HAGEL. Do you want to add anything to that, Mr. Secretary?

Mr. MCNAMARA. I think that there is a common desire on the part of the different Agencies in the executive branch to see that as the modernization, of whatever necessary modernization takes place in Latin America, as it takes place, that the United States and United States industry benefit from that modernization.

I think that in some cases the sales will go elsewhere. Historically, Peru has bought Russian military items, particularly aircraft, and, therefore, they have continued along that line.

In other markets, in other countries, we would like to see the United States participate. Exactly how we will participate, and precisely what the request will be is what remains to be seen.

How we will participate will be known as a result of the review that is now ongoing. What those countries wish will depend upon what their requests are . So, far we have not received requests for a sale from Chile or other countries down there.

The Chileans had told us that over the course of the next year they wish to examine and to evaluate a variety of aircraft, including American, European, and other aircraft, to see what they themselves think their needs are in the future. At this point, we will have to get our policy settled, and then address the issue of how we will respond to Chile's request for information.

Senator HAGEL. Thank you. I want to go back to the Middle East, Lebanon. I noted that you are requesting an increase in the ESF fund for Lebanon.

If I understand this right, the $12 million that would go there is—I am not sure what it is for, and I would like to get your thoughts on that, and explain to me what that money would be used for, but I am a little puzzled. Here is a country that—well, I am not sure it is a country.

I think you have Syria as an occupying force power there, we have travel embargoes, we have an unstable situation, I'm not sure anybody really knows what is going on there.

What would we be doing sending $12 million to Lebanon? Do you have confidence that we can use that in the right way? I do not know who wants to answer that first, but I would be interested in

why we are sending $12 million to Lebanon. I know you cannot buy a jet aircraft for $12 million, so that probably rules that out.

Mr. MCNAMARA. That is correct. With ESF we do not buy military equipment anytime.

Senator HAGEL. Yes.

Mr. MCNAMARA. Basically, what we are looking at here is a very modest program in Lebanon to try and rebuild and to strengthen the infrastructure of the country. To walk away from Lebanon and leave it to Syria would be a grave mistake.

Lebanon has an important role to play in the Middle East, Lebanon is an important country in the Middle East, although, in recent years it has gone through some trials and tribulations that have sorely stressed it.

We would like to see this money used to build infrastructure, to train civilian administrators, to provide more efficient services, to support the American-based university system in Lebanon so that there would be American-type universities, training Lebanese in mid-level management areas.

We are also hoping that the infrastructure for water, electricity, telecommunications, and other utilities and facilities can be strengthened by this $12-million program.

Also, housing has been sorely hit in recent years, because of the civil war in Lebanon. There is intense poverty and lack of housing, and some of these funds will be trying to make some corrections in that sad situation.

So, generally, it is infrastructure building in Lebanon to enable Lebanon to get through this difficult period that it is in, and resume its normal structure and its normal place in the Middle east.

Senator HAGEL. Who administers the $12 million? Where does that go physically?

Mr. MCNAMARA. AID administers most of the ESF programs, which——

Senator HAGEL. So they have the administration responsibility——

Mr. MCNAMARA. They have the responsibility——

Senator HAGEL. [continuing]. in Lebanon.

Mr. MCNAMARA. Yes.

Senator HAGEL. OK. General, I know this is a little out of your area, but if you would care to respond, that would be fine.

General RHAME. Our dealings with Lebanon, Mr. Chairman, have revolved around the sale of some light UH–1 helos, some M–113s, all of which is equipment designed to strengthen their armed forces for the future.

It has been a modest program. It has mostly been done for sale, and no grant FMF, to my knowledge, has been administered with Lebanon.

Senator HAGEL. It has not been administered——

General RHAME. We have sold $6 million in major defense items under FMS using Lebanese national funds. We have also provided Lebanon with $13.5 million worth of miscellaneous non-lethal equipment under the grant EDA program.

Senator HAGEL. OK. General, you mentioned in your remarks that you think we have gotten a considerable return on our investment in the IMET program.

General RHAME. Yes, sir.

Senator HAGEL. I would like you, if you could, to give me a little clearer understanding of what we are doing now with the military-to-military contact program, and how that works.

General RHAME. Yes, sir. In IMET, Mr. Chairman, there are three components that I see. One is the professional military education, which is going quite well, with numerous officers from countries that previously we simply did not talk to from Central and Eastern Europe, which we used to call the Warsaw Pact, and newly independent states of the former Soviet Union on and on again, and that has been exciting to watch them develop.

I submit that our officers in our schools learn as much as the foreigner does, because I think we are strengthened professionally and intellectually by their presence in our schools.

Second, an Expanded IMET program, which allows, in this case, for both military and civilian people of foreign governments to attend our institutions, to be exposed to the way the democracy functions, how civilian leadership has exercised control over the military, how that military performs in a democratic society with civilian leadership.

We started out on this program attempting to do $5 million of Expanded IMET a year, and last year we did almost $8 million. It is an exciting program. Countries like it. We like it, we think it is making great contributions.

Third is technical training. We are doing—a minor portion of IMET is dealing in technical training. Because of the shortage of dollars and the demands in this new modern world to do the things we do, we are not doing the expensive things like pilot training, and the other things that used to consume large amounts of money, we do not do that any more.

So, it is focused, and it is an exciting program, and we are getting a lot of benefits.

The mil-to-mil contact program is a different program. IMET is an educational program in which we develop officers here in our training base or send our people there to do it.

Mil-to-mil contact teams are uniformed military personnel of the armed forces, which are posted in the foreign countries of Central and Eastern Europe and the Newly Independent states, work for the unified command, to represent them for exercises in mil-to-mil contact with those governments.

At the time these were put into place, Mr. Chairman, we did not have officers out there doing security assistance, they were an augment team to our attaches to assist them to develop the mil-to-mil relationship with those countries.

So, the mil-to-mil contact program is a Title X program, supported by Defense, with people in-country. IMET is an educational program which seeks to bring those officers into our educational system for professional development. That is a long answer, but I hope I have answered your question.

Senator HAGEL. Mr. Secretary.

Mr. MCNAMARA. Mr. Chairman, I think that I could make a very strong argument that dollar for dollar there is no U.S. security money that is better spent than IMET. Let me approach it from the point of view of education.

The ties that are formed between humans are strongest in families, and they are weakest among people who do not know each other. The second strongest ties that I know of, after family ties, are educational ties.

If educated with somebody, there is a certain bond that occurs that lasts in many cases, as we all know, for years and years.

This is true in the military, also. Taking young military officers to the United States, and exposing them to American culture, American lifestyles, and teaching them how to do things the way we do it is one of the best ways to ensure that those officers go back to their home country, one, with a favorable disposition toward the United States, two, with an understanding of the United States and how to work with us, and to get along with us, and three, how to perform their jobs and their functions in the home country in a way that comes close, as close as we can, to replicating the way we do it.

For example, we have noted peacekeeping operations in which the United States has taken the lead and others have followed us.

In those operations, invariably, American-trained officers from the other countries perform those peacekeeping operations in a manner more consistent with our values and our approaches to peacekeeping than those that have not. In peacekeeping operations that, for example, have been performed by Eastern Europe and Russia, their way of doing peacekeeping is quite dramatically different from ours, much rougher and, in fact, more violent than we think is necessary.

Training those East European officers to do it the way NATO and the U.S. does it in the long run means that we are going to see them doing it that way.

To cite an even more distant example, Indonesia has got a reputation, particularly here on Capitol Hill, of being pretty difficult and not really responsive on human rights concerns.

There are some examples that I could cite of IMET-trained officers who have undertaken hostage rescue operations in Indonesia, crowd control and riot control in Indonesia, which have received compliments from many international organizations, NGO's, the International Red Cross, the U.S. Government, as well as American citizens who are involved in these incidents in Indonesia.

They were IMET trained, and they did the job the way, or very close to the way we would like to see it done, because when those officers went home, the way they knew how to do that job was the way they were trained here in the United States.

I think that the IMET program, we should be devoting even more money to it, but as I said earlier on, given the imperfect world in which we live in, and the constraints on us, in terms of budget, the modest increase in the IMET program is well worth it.

Senator HAGEL. I appreciate your thoughts. Indonesia is an interesting example to use, since that country has been in the news recently for a number of things.

On the military-to-military program, Mr. Secretary, what role do you play in selecting those countries?

Mr. MCNAMARA. The Department of Defense consults with us, and obviously, also, with our Ambassadors in the field. The CINCS in the different regions come back with their recommendations and

suggestions for which countries and what types of mil-to-mil contacts, and there is the usual inter-agency consultation before the final decisions are made.

Ultimately, the Department of Defense makes the decisions with respect to the mil-to-mil contacts, in much the same way as we make the ultimate decisions on the IMET program, which is State Department funded. But we do it hand-in-hand with the Department of Defense.

Senator HAGEL. General, I happen to be well acquainted with one of your predecessors, General Charlie Brown——

General RHAME. Yes, sir.

Senator HAGEL. [continuing]. who is from, as you probably know, Nebraska, and he is out punching cattle and living the good life in western Nebraska, and I just want——

General RHAME. I have been told he is living a very good life.

Senator HAGEL. Yes, he is. Well, that is what happens with retired generals. I know you have a lot to look forward to.

Gentlemen, I am grateful that you would take the time this morning to come up. I have some other questions, I know my colleagues do, on this committee, and what we will do, as is always the case, is submit those for the record.

What I will do is leave the record open until close of business Friday. If there is anything that you need to respond to, please do. Are there any other comments that you-all would like to include on the record for this hearing?

General RHAME. I do not have any.

Mr. MCNAMARA. I do not have any, Senator, and I thank you for the opportunity to be here.

Senator HAGEL. Well, much success to you. Thank you.

General RHAME. Yes, sir. Thank you.

Senator HAGEL. This hearing is adjourned.

[Whereupon, at 11:55 a.m., the hearing was adjourned, to reconvene at 10:44 a.m., March 13, 1997.]

THE FY98 BUDGET REQUESTS FOR INTERNATIONAL ORGANIZATIONS AND CONFERENCES AND ARMS CONTROL AND DISARMAMENT AGENCY

THURSDAY, MARCH 13, 1997

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:44 a.m. in room SD–419, Dirksen Senate Office Building, Hon. Rod Grams (chairman of the subcommittee), presiding.

Present: Senators Grams and Feinstein.

Senator GRAMS. Good morning. I would like to bring this hearing to order. I am pleased to welcome all of you to what is the third in a series of budget oversight hearings being held by the Subcommittee on International Operations. Today's hearing will focus on the fiscal year 1998 requests for the Arms Control and Disarmament Agency budget, and for the portion of the State Department's budget covering International Organizations and Conferences.

I want to thank the two officials who have agreed to testify before the subcommittee. The first panel will be Mr. John Holum, Director of the U.S. Arms Control and Disarmament Agency, or the ACDA. The second panel will be Ambassador Princeton Lyman, Acting Assistant Secretary of State for International Organization Affairs. I should note that Ambassador Lyman's nomination has been unanimously reported out of the Foreign Relations Committee and is currently awaiting action by the full Senate.

Now, risking the accusations of my colleagues that I sound like a broken record, I would like to start out again today by making the same statement to Director Holum that I made to Acting Undersecretary of State Patrick Kennedy and also to USIA Director Joseph Duffey during those previous hearings. I am proceeding with this hearing on the assumption that the administration is developing and will present to Congress a proposal for the reorganization of the State Department and also for related foreign affairs agencies, including ACDA. While the subcommittee will not question you about the specifics of any reorganization plan, you should note that there is considerable bipartisan interest in this issue, and I look forward to receiving the administration's reorganization proposal and also to working with members of the Foreign Relations Committee to craft a plan deserving of broad support.

I should also point out that this hearing will not focus on the debate over the Chemical Weapons Convention since discussions between the administration and Congress on that treaty are being handled on a separate track. Of course there may be some questions on the CWC-related funding request that is included in ACDA's budget.

Turning to the budget request for the International Organizations, the predominant issue on everyone's mind is United Nations reform and also the repayment of U.S. arrears to that body. Since the purpose of this hearing is budget oversight on a broader basis, I do not intend to explore the whole range of proposed U.N. reforms in any great detail today as well. But, given that the administration has requested almost $1 billion for U.S. arrears to the United Nations, let me reiterate a couple of principles which I believe reflect the general consensus of many, if not all, Senators who are working on this issue.

That is, first, the repayment of U.S. arrears should be explicitly linked in legislation to the achievement of significant reforms at the United Nations. Second, that the repayment of arrears should take place over several years to ensure that it is feasible within budget constraints and that reforms are proceeding at an appropriate pace. And third, whatever agreement may be reached between Congress and the administration should be considered during the normal authorization and appropriations process, and this includes a thorough review by this subcommittee and a markup within the context of the State Department Authorization Bill by the full Foreign Relations Committee.

Let me add that I truly appreciate the repeated offers that have been made by the distinguished ranking member of the subcommittee, Senator Feinstein, to work together on these U.N. issues. I know that U.N. reform is a high priority for Chairman Helms, the majority leader, Senator Judd Gregg, who is Chairman of the Appropriations Subcommittee with oversight for the United Nations, and also Senator Biden, the distinguished ranking member of the Foreign Relations Committee. It is certainly my intent to work with all of these Senators to see if we can reach some consensus on U.N. legislation.

Finally, we should not forget that there are assessed contributions for 48 other international organizations included in this budget request. Although these organizations do not get the same level of media attention as the U.N., budgetary limitations and oversight responsibilities demand their constant review. The subcommittee needs to make sure that every U.S. contribution, no matter how small, is furthering specific national interests that must be addressed on a multilateral basis. All organizations should also be scrutinized for duplicative functions or ineffective management practices.

With that, I look forward to a constructive discussion today on a number of issues that will be raised by both panels. Director Holum and Ambassador Lyman, we welcome you here to outline the priorities for your respective areas of the President's budget request for International Affairs.

Now I would like to turn to Senator Feinstein for some of her opening remarks. Senator.

Senator FEINSTEIN. Thank you very much, Mr. Chairman. I will be very brief and enter my remarks in the record. I do want to say a couple of things on each of the subjects.

The first is on the Arms Control and Disarmament Agency. For many of us, when we think of arms control we think of the U.S.-Soviet summitry of the cold war. There are those in Congress that believe that because the Soviet Union is no more that the world is necessarily a much safer place. I do not necessarily agree with that. When I look around the world I see a myriad of problems: Advanced missile proliferation in the Persian Gulf, so-called non-weaponized nuclear deterrents in South Asia, the threat of loose nukes in the former Soviet Union, the danger of terrorists armed with chemical or biological weapons, and,of course,certain renegade nations run by people that simply just do not care. So in many ways the work of the Arms Control and Disarmament Agency is even more vital for American security today than it was at the height of the cold war.

During the height of the cold war the world was a very simple place. You had two very large nations, both sides lined up in camps. If you were pro-free world you lined up behind the United States. If you were pro-Soviet you lined up behind the Soviet Union. There was a certain symmetry and control. That is gone now, and consequently what we see are a lot of floating weapons, a lot of floating technology, suddenly nations moving weapons and moving this technology. I, for one, have very serious concern about it, so I look forward to hearing the testimony.

You are right, Mr. Chairman, I do look forward to working with you with respect to handling the United Nations, our arrearages, and the dues that we owe. I understand that the meeting we had for later today has been postponed. I am very hopeful it will be rescheduled rapidly. I think the word has gotten through that both sides of the aisle in the Senate are eager to have something worked out whereby there can be some benchmarks attached to real reform, a statement of mission that is clear and defined, and so on. So I just want to say that I think we can get to that point, and hopefully it will be sooner rather than later. So I am very happy to join with you here today and welcome our witnesses.

Senator GRAMS. Thank you very much, Senator.

Mr. Holum, I would like to turn it over to you. I would just remind you, I know you have to leave at 11:30, so if you could keep your remarks as brief as we have so we could get into a few questions, I would appreciate it. By the way, your full statement will be entered into the record as read.

STATEMENT OF JOHN D. HOLUM, DIRECTOR, U.S. ARMS CONTROL AND DISARMAMENT AGENCY

Mr. HOLUM. Thank you, Mr. Chairman, and Senator Feinstein. I am pleased to be with you to discuss the President's agenda for arms control and nonproliferation and our efforts to advance it. The staff has advised me that there would be no objection if I cut my statement shorter even than I had planned, so I will do that as I go through.

I ask that you consider the President's fiscal year 1998 request of $46.2 million for ACDA in this light: We are a compact agency

under instruction to do more while becoming even smaller, and we are succeeding on both counts. I would like to briefly describe, first, our mission and second, the continuing reform and streamlining our budget represents.

As President Clinton has stressed, we are pursuing the most ambitious agenda to dismantle and fight the spread of weapons of mass destruction since the atom was split. We have had some successes, including the 1995 decision to make the Nuclear Non-Proliferation Treaty permanent, and the 1996 completion of an effort that began with President Eisenhower to negotiate a global ban on nuclear explosive tests. But more work lies ahead.

The cold war left behind a massive overhang of arms, and, as Senator Feinstein has noted, a growing danger that weapons of mass destruction will fall into the hands of terrorists or into the arsenals of rogue states.

ACDA is engaged in literally scores of activities to serve that core purpose. Much of that work is out of the public eye, consisting of things like reviewing export licenses, reporting to the Congress on compliance with arms control, or evaluating intelligence and preparing demarches to interrupt shipments of dangerous goods to bad places.

Let me just highlight some of our leading negotiating priorities. First, in the strategic area we want to continue reducing strategic nuclear arms. Once START II is in force, President Clinton has made clear that we are prepared to discuss further cuts.

We are working in Geneva to negotiate a cutoff in production of fissile material for weapons.

Another priority is to strengthen the Nuclear Non-Proliferation Treaty (NPT) regime, including its safeguards, to ensure that another clandestine program, such as that uncovered in Iraq in 1981, does not happen again.

We will press to ratify and implement the Comprehensive Nuclear Test Ban Treaty. After conducting more than 1,000 nuclear tests, we gain security to the extent we lock all nations in place on the nuclear weapons learning curve.

Our most urgent priority, as you know, is ratification of the Chemical Weapons Convention (CWC) and the adoption of the implementing legislation. I will not review here the reasons why this treaty is important, as you have said it is being worked in another context. But let me just underscore that the treaty is a priority for President Clinton not only for its own considerable value, but because failure to ratify would set back the United States' role as the world's leader in building global coalitions and enforcing strong export controls, and in fashioning international regimes against all weapons of mass destruction.

We are leading now in the 93+2 safeguards regime. We led in negotiating the CWC itself under Presidents Reagan and Bush. With proliferation dangers rising, this is not a good time to weaken America's hand.

We are also working hard to enhance compliance with the Biological Weapons Convention. Finally another leading priority is our work in the Conference on Disarmament to negotiate a global ban on antipersonnel land mines. We are determined to meet President

Clinton's charge to the U.N. last September that our children deserve to walk the earth in safety.

As we pursue these and other arms control advances, we have to attend to something less glamorous but certainly no less important, arms control implementation. We are piling up arms control implementation and verification requirements: Conventional Forces in Europe, Open Skies, INF, START I, START II, the CWC, Test Ban. These are joining older agreements to form a prodigious architecture of international arms control law. Realizing its full potential is becoming a momentous mission.

With my South Dakota farm roots, I think of this as the arms control harvest, where we actually reap the benefits of all the work that has gone before. Implementation is assigned by law to ACDA, and it occupies more and more of our time. While it is a national security bargain, it is neither effortless nor free.

Notwithstanding this expanding mission, ACDA is a streamlined agency committed to efficient and effective arms control. To date we have reduced our annual operating budget by $2 million. We have reorganized internally to eliminate unnecessary management layers and streamline for a more efficient and effective operation.

ACDA has also worked with the Department of State to eliminate unnecessary duplication by reorganizing, reducing positions, and coordinating all arms control and nonproliferation work.

For fiscal year 1998, the administration is requesting $46.2 million for ACDA's responsibilities. That includes $42 million, a little over, for ACDA's ongoing activities, and $4 million for new activities related to the CTBT, the CWC, and NPT.

Our 1998 operating budget request of $42 million is $2 million less than our appropriation 4 years ago. It is 18 percent below the appropriation for 1993. It also represents a reduction of another 10 positions from the personnel ceiling established for 1997. Those reductions in both personnel and funds are part of the administration's right sizing initiative across the Federal Government, and we continue to look for ways to enhance productivity and provide more effective and efficient arms control to the taxpayer. There is a list of those efforts attached to my statement, and I invite your attention to it.

I especially want to point out that ACDA has been working hard to reduce its administrative support infrastructure. Over the past 3 years our down sizing and streamlining efforts have eliminated a total of 28 authorized administrative positions in our domestic and overseas offices. Domestically we have reduced administrative support by 23 percent, or 19 positions. Overseas we have reduced administrative support by 45 percent, eliminating another 9 positions.

We are continuing to search for ways to operate more efficiently, including some legislative changes we have submitted when we proposed our 1998 budget.

Mr. Chairman and Senator Feinstein, few doubt that the world today still bristles with cold war over armament, and faces new dangers of proliferation, terrorism, convulsive nationalism, environmental pressures, drug trafficking, and many others that directly affect us. Those challenges require ever more effective diplomacy, what Hans Morgenthau called the most important component of a

nation's international power. They certainly demand that we work together, even when our government is divided, in fashioning the kind of unified foreign policy that befits a great power in a perilous world.

It is in that spirit that ACDA presents to you the administration's request for $46.2 million to fund its arms control and nonproliferation work in fiscal year 1998.

Thank you.

[The prepared statement of Mr. Holum follows:]

PREPARED STATEMENT OF MR. HOLUM

Chairman Grams and Senator Feinstein, I am pleased to be with you to discuss the President's ambitious agenda for arms control and nonproliferation and our efforts to advance it.

I ask that you consider the President's fiscal year 1998 budget request of $46.2 million for ACDA in this light: we are a compact Agency under instruction to do more while becoming even smaller. And we are succeeding on both counts. I'd like to briefly describe, first, our mission and second, the continuing reform and streamlining our budget represents.

* * *

As President Clinton has stressed, we are pursuing "the most ambitious agenda to dismantle and fight the spread of weapons of mass destruction since the atom was split."

We have had some signal successes—including the 1995 decision to make the Nuclear Non-Proliferation Treaty permanent, and the 1996 completion of an effort that began with President Eisenhower, to negotiate a global ban on nuclear explosive tests. A detailed description of ACDA's contribution to U.S. national security is attached to my prepared statement which is before you. I request that both the prepared statement and this attachment be inserted in the record.

But more vital work lies ahead. For the Cold War's end has left behind a massive overhang of arms—and a growing danger that weapons of mass destruction will fall into the wrong hands. Experience and advances in technology have opened the way to new tools for building our security by dismantling and averting threats, through the preventive defense of arms control.

These are not abstract issues. Each indiscriminate incident of terror, either the poison gas attack on the Tokyo subway or closer to home in the Olympic Park bombing should fortify our determination to do all we can to ensure that weapons of mass destruction are kept away from terrorists and out of outlaw states arsenals.

ACDA is engaged in literally scores of activities to serve that core purpose. Much of the work is out of the public eye, consisting of things like reviewing export licenses, reporting to the Congress on compliance with arms control agreements, or evaluating intelligence and preparing demarches to interrupt the shipment of dangerous goods to bad places. I'll just summarize some of our leading priorities, as defined by President Clinton, and invite your attention to the attachment for more detail.

PRESIDENTIAL PRIORITIES—NEGOTIATIONS AND RATIFICATIONS

First, in the nuclear area, we want to continue reducing strategic nuclear arms.

We have made clear that this first requires Russian ratification of the START II Treaty, which will complete a two-thirds reduction in the ability to deliver strategic nuclear warheads and bombs. START II is the door to START III, and there's no way around it.

But once START II is in force, President, Clinton has made clear that we are prepared to discuss further cuts. This will address Russian concerns over being unable to maintain parity with the United States at the START II 3,000-3,500 warhead levels. If Russia wants to maintain parity with the U.S. at START II levels, it would need to build hundreds of new single warhead missiles, which it cannot afford, as it eliminates remaining multiple warhead missiles as required by the Treaty. Without START II, the U.S. would retain START I force levels of 6,000 weapons, making Russia's dilemma even greater. But reductions beyond START II are warranted on their own merits, and a follow-on negotiation can also open a new phase of arms control, in which we not only control delivery vehicles, but also limit and monitor

nuclear warheads and materials, to help ensure that our hard-won nuclear reductions are never reversed.

Strategic arms control has meant thousands fewer warheads potentially aimed our way. And in a speech before the National Press Club on April 27, 1995 Tony Lake, then-Assistant to the President for National Security calculated that the U.S. has been able to "pull back from the Cold War nuclear precipice—and save some $20 billion a year on strategic nuclear forces." Strategic nuclear arms control provides both real security and savings benefits to the American taxpayer.

We are working in Geneva to negotiate a cutoff in production of fissile material for weapons.

The highest obstacle to someone who wants to make a nuclear weapon is not the technology, but the material—the highly enriched uranium or plutonium. A non-discriminatory ban on production would cap global stocks of these deadly materials, add momentum to further nuclear disarmament steps, and help fulfill the promise of the 1995 NPT Extension and Review Conference.

Another priority is to strengthen the Nuclear Non-Proliferation Treaty regime including its safeguards.

In 1995, we succeeded in making the NPT permanent—a national security triumph for the United States and all peace-loving nations. It is also becoming more nearly universal—now with 185 member states, and only five remaining outside.

Now our top priority is to further strengthen its safeguards. Notwithstanding its NPT membership, we learned in 1991 that Iraq had a well-advanced clandestine nuclear weapons program. We need to do all we can to ensure that doesn't happen again—by adding new technologies and access, such as environmental monitoring away from declared facilities, to sharply increase the chances of uncovering secret nuclear weapon programs. The 93+2 program we have been negotiating in Vienna will do that. We hope to wrap up this long-sought initiative in May.

We will press to ratio and implement the Comprehensive Nuclear Test Ban Treaty or CTBT.

It is possible to make a nuclear weapon without testing. Remember, however, that our first nuclear weapon was so big that a trench had to be dug underneath the B-29 which was to carry it. Without testing, it is dramatically harder for anyone to advance to thermonuclear designs or to make weapons small enough to fit into a light aircraft, a rudimentary missile, or a terrorist's suitcase.

The United States has conducted well over 1,000 nuclear tests—hundreds more than any other country. So we gain security to the extent we lock all nations in place on the nuclear weapons learning curve. For any tiny increment in knowledge we might gain from more tests is dwarfed by the value of preventing tests by others—including rogue states who could derive quantum leaps of capability from even a few explosions.

Our most urgent priority is ratification of the Chemical Weapons Convention and adoption of the implementing legislation.

The CWC will give us better tools to deal with some 20 countries—many hostile to the United States—that have active chemical weapons programs. As the Acting Director of Central Intelligence recently testified, its verification provisions will give us more information than we have now about threats we need to assess with or without the treaty. And the information will be actionable, because even possession of chemical weapons will be illegal, which is not the case now.

The CWC will also help address the threat of terrorist use of poison gas. As Attorney General Reno said last month of the treaty and its implementing legislation, "these new laws will help law enforcement agencies worldwide to investigate and prosecute chemical weapons-related activities, and improve chances of detecting terrorists before they strike."

Keep in mind that this treaty is not about U.S. weapons. A 1985 law, signed by President Reagan, mandates destruction of the vast majority of our CW stockpile, which is underway. The treaty requires other countries to do the same. It is a bipartisan treaty, mandated by President Reagan and concluded under President Bush, who said last month, "We don't need chemical weapons, and we ought to get out front and make clear that we are opposed to others having them." Now the treaty is being pushed for ratification by President Clinton.

Our military wants it—as exemplified most recently by the strong support of General Norman Schwarzkopf, who led the troops facing poison gas in the Gulf War. The affected business community, most notably U.S. chemical manufacturers, strongly supports it. And so do the American people—by a margin of 84 to 13 percent, according to a recent Wirthlin Worldwide poll.

And now we no longer have the option of delay. The CWC enters into force on April 29, with or without us. If we are not a party by then, the U.S. will have no place on the Executive Council. Americans will be ineligible to serve as inspectors.

Americans now serving as head of administration, head of industrial inspections, and head of security will be removed, and those key jobs will go elsewhere. American chemical companies will begin losing trade to their overseas competitors—as much as $600 million, they estimate—as mandatory trade sanctions against non-parties phase in. We will not have access to the treaty's tools against rogue state and terrorist CW activities.

Let me conclude on CWC with a broader point. The CWC is a priority for President Clinton not only for its own considerable value, but because failure to ratify would be a grave, self-inflicted wound for our country. For the United States is the world's leader—in building global coalitions, in enforcing strong export controls, in fashioning international regimes against all weapons of mass destruction. We led in negotiating the CWC under the Reagan and Bush administrations.

With proliferation dangers rising, there could not be a worse time to weaken America's hand. I can't imagine a worse time to tell the world, we're less interested in fighting proliferation than in fighting among ourselves.

I say this on behalf of people who deal with these problems routinely—not as a genteel intellectual exercise or political outing, but in the trenches—where shipments are made or stopped, where other countries listen or turn a deaf ear, where negotiations succeed or fail.

It is from this intensely practical perspective, among others, that we need the Convention. For it is unavoidable that if you want results in our global efforts against proliferation and terrorism, you'll get less if this treaty fails—both because we won't have the tools in the CWC, and because our leadership and effectiveness will be depleted across the board.

The campaign against the CWC is effectively a far broader assault: against our ability to follow through at home on what we have urged abroad—against our claim to global leadership against all weapons of mass destruction and terror.

So I urge the Senate to act promptly on the Convention, and I also urge this Subcommittee and the Congress to act as quickly as possible on implementing legislation—to help us keep chemical weapons off future battlefields and streets.

We are working hard to enhance compliance with the Biological Weapons Convention (BWC).

Biological weapons are often grouped with chemical weapons; but, in my view, their destructive potential is more like that of nuclear arms. Chemical weapons become less lethal as they are dispersed; biological weapons are living things. So, in the right environment they can multiply, mutate, and resist treatment.

The 1972 Biological Weapons Convention has broad prohibitions, but—unlike the CWC—lacks teeth. To further deter violations, the U.S. has supported a negotiation to achieve a legally binding protocol of mandatory measures to enhance compliance, including both off-site and on-site measures. We are aiming for a legally-binding protocol by 1998.

Even though treaties such as the BWC are aimed against countries, they and their implementing legislation can have important anti-terrorist uses at home. In 1995, for example, a member of a hate group in Ohio fraudulently ordered the bubonic plague bacillus by mail from a specialized supplier in Rockville, Maryland. The order was filled. But the supplier also notified law enforcement officials, who, in turn, searched the would-be terrorist's home, and stymied whatever plans he was brewing. This happened, in part, because of a law, the Biological Weapons Anti-Terrorism Act, which is on the books because of the BWC.

Finally, another leading priority is our work in the Conference on Disarmament to negotiate a global ban on antipersonnel land mines.

If you consider the potential of arms to inflict damage, you are obviously drawn to weapons of mass destruction, which can wipe out whole cities at a time. But if you consider their actual impact, you're drawn to conventional weapons, which routinely are wiping out whole cities, a few people at a time.

Antipersonnel landmines are scattered across the globe. They kill or maim some 25,000 non-combatants every year—mostly children playing or farmers returning to their fields, long after a war is over.

Last year the United States led a successful international negotiation to prohibit anti-personnel mines that can't be detected, and unmarked anti-personnel mines that don't self-destruct and self-deactivate. Now we are pressing ahead to fulfill the President's call for negotiations leading to a complete ban on the use, stockpiling, production and transfer of anti-personnel landmines. We are determined to meet President Clinton's charge to the UN last September, that our children deserve to walk the earth in safety.

Mr. Chairman, I have been grateful for the determined and productive leadership of Senator Leahy on the land mine issue for a number of years in the Congress and internationally. He described it in a letter to me shortly after President Clinton an-

nounced the U.S. goal of eventual elimination of antipersonnel landmines, "There are at least 85 million unexploded landmines in over 60 countries, where they cause immense suffering among local people and pose a grave danger to returning refugees, humanitarian relief workers, and United States troops whether engaged in combat or as part of international peacekeeping operations."

IMPLEMENTAON OF ARMS CONTROL AGREEMENTS

As we pursue these and other arms control advances, we must attend to something perhaps less glamorous, but certainly no less important—arms control implementation, or the steady work of translating the gains agreed to on paper into real results on the ground.

Functionally, implementation, not negotiation, is where most of the action takes place in arms control—in monitoring behavior, evaluating intelligence and inspection reports, challenging misconduct, resolving issues of interpretation, and reporting on compliance to the Congress and the American people.

And as we succeed in negotiations, we are piling up arms control implementation and verification requirements. A number of recent agreements—such as Conventional Forces in Europe, Open Skies, INF, START I and START II, the Chemical Weapons Convention, the Comprehensive Test Ban Treaty—are joining older agreements such as the ABM Treaty and the NPT to create a prodigious architecture of international arms control law. Realizing its full potential is becoming a momentous mission.

With my South Dakota farm roots, I think of this as the arms control "harvest," where we actually reap the benefits of all the work that has gone before. It is work specifically assigned, by law, to ACDA. It occupies more and more of our time. And while it is a national security bargain, it is neither effortless nor free.

We implement our agreements scrupulously. I see no sign that the Congress wants us to relax or let down our guard. We must finish the jobs we have started.

For this, after all, is what arms control means to Americans. They know that arms control agreements represent only the promise that an adversary's arsenals will be avoided or destroyed—that the promise isn't kept until those arsenals are actually taken down. And they understand something that we inside the Beltway often forget: After the Rose Garden ceremonies have ended, and the strains of "Hail to the Chief" have died away, the heavy lifting has just begun.

ACDA'S AGENDA AND ITS BUDGET - STREAMLINED FOR GREATER EFFECTIVENESS AND EFFICIENCY

Notwithstanding this expanding mission, ACDA is a streamlined agency.

ACDA is committed to efficient and effective arms control. We are able to do more with less in part because we have set priorities through a strategic planning process that is now in its third year.

ACDA developed a strategic plan three years ago because we saw the need for such a plan as the agency identified two major objectives: to implement an expanding arms control agenda and to downsize.

Therefore, I note with interest the fact that the Government Performance and Results Act (GPRA) of 1993 starts this year. ACDA welcomes this opportunity to consult with the Subcommittee on the strategic plan that we have already been implementing. ACDA is committed to working with this Subcommittee to improve our efficient and effective operation thereby enhancing the contributions we make to U.S. national security.

To date, we have reduced our annual operating budget by $2 million. We have reorganized internally to eliminate unnecessary management layers and streamline for a more efficient and effective operation.

ACDA has also worked with the Department of State to eliminate unnecessary duplication by reorganizing, eliminating duplication, and coordinating all arms control and nonproliferation work. This on-going joint ACDA/State dialogue has resulted in both ACDA and State continuing to make their respective unique contributions to national security while saving hundreds of thousands of dollars by sharing scarce resources and avoiding unnecessary expenditures. For example:

- In our Geneva operations we have moved our Conference on Disarmament Delegation from commercial office space in the Botanic Building into the U.S. mission for a savings of $750,000 per year;
- ACDA has eliminated administrative duplication with State in the areas of document and treaty retrieval and dissemination of diplomatic and other communications; and,

- ACDA has closed its library by transferring it to the State Department's library, and has eliminated its photographic services by out sourcing with State as needed.

As a small, nimble organization, we have also continuously restructured ourselves to meet new objectives as earlier ones are achieved. For example, once the recent NPT and CTBT agreements were achieved, the divisions assigned those missions were realigned to work on other challenges. We have also worked closely with our colleagues in the Department of State to ensure that missions are assigned to those best qualified to perform them.

For Fiscal Year 1998, the Administration is requesting $46.2 million for ACDA's responsibilities. This request provides $42,058,000 for ACDA's ongoing activities and $4,142,000 for new activities related to CTBT, CWC, and NPT, which address some of the most dangerous proliferation threats.

- $2.8 million will partially fund the CTBT Preparatory Commission's work to establish the Treaty's verification regime, including networks of seismic, radionuclide, hydroacoustic, and infrasound sensors.
- $892,000 is for the Office of National Authority for the Chemical Weapons Convention, needed under the treaty to compile declarations and reports, interact with the OPCW, and provide administrative support for U.S. implementation activities.
- $250,000 will support preparation for the Nuclear Nonproliferation Treaty (NPT) Review Conference. The first preparatory committee meeting takes place in New York this April.
- $200,000 is to address special requirements of ACDA's Data Repository. We need to upgrade our technical capabilities in order to keep pace with the many treaties now entering implementation.

Leaving aside these special requirements, our FY 1998 operating budget request of $42 million is $2 million less than our appropriation four years ago. Our FY 1998 request also represents a reduction of another 10 positions from the FTE personnel ceiling established for the FY 1997 Budget.

These reductions in both funds and personnel are part of the Administration's systematic right-sizing initiative across the federal government. And ACDA continues to look for ways to enhance productivity and provide more efficient and effective arms control to the U.S. taxpayer. I will cite a few examples and invite your attention to the attachment for more.

- We consolidated most of ACDA's export control functions into a single Division and implemented a new licensing referral system, resulting in faster processing time.
- We dual-hatted personnel among the CTB, Fissile Cutoff, and Landmines initiatives without adding new personnel.
- We have implemented a system for computerized storage and retrieval of policy documents and decisions. Now, within minutes, we can retrieve information which once took days.
- Over the past four years, ACDA has completely modernized its computer systems without increasing our annual budget request. This achievement prompted the computer industry to rank ACDA as the first among all federal agencies in terms of a working environment for computer professionals.

Mr. Chairman, I want to point out that ACDA has been working hard to reduce its administrative support infrastructure. Over the past three years our downsizing and streamlining efforts have eliminated a total of 28 authorized administrative positions in our domestic and overseas offices.

- Domestically, we have reduced administrative support by 23%, or 19 support positions.
- Overseas, we have reduced administrative support by 45%, eliminating another 9 positions.

This reflects both internal economizing and the results of Vice President Gore's National Performance Review, which reaffirmed ACDA's importance to effective arms control, but also set specific requirements for consolidating administrative functions across the foreign affairs agencies. We have taken that mandate seriously. We are also keeping faith with the Arms Control Revitalization Act of 1994, reflecting the shared view of the President and the Congress that U.S. national security in the post-Cold War world requires a revitalized ACDA.

We are continuing to search for ways to operate more efficiently. For example, in legislation submitted on February 14, 1997, we propose a number of changes which should result in additional efficiencies and savings beyond the $2 million already

specified. These changes would eliminate a redundant report, streamline our publication efforts, and achieve economies in our security clearance process.

Mr. Chairman, ACDA is a small, expert agency charged with advocating, negotiating, implementing and verifying arms control. Next year we will have less than 250 people, plus detailees. We have a continuous presence only in Washington, Geneva, Vienna and The Hague.

That means I'm as concerned about the State Department and other 150 budgets as about ACDA's own. For we are among the many who throw our voice abroad through others, especially State's embassies and missions. And very often we need that voice in remote places. On the NPT extension, for example, Micronesia's vote counted exactly the same as China's.

On this basis, I also urge your careful attention to the budgets of all the foreign affairs agencies, including ACDA's.

CONCLUSION

Mr. Chairman and Members of the Subcommittee, few doubt that the world today still bristles with Cold War overarmament—and faces new dangers of proliferation, terrorism, convulsive nationalism, environmental pressures, drug trafficking, and many others that directly affect us.

Those challenges require ever more effective diplomacy—what Hans Morgenthau called "the most important" component of a nation's international power.

And they demand that we work together—even when our government is divided—in fashioning the kind of unified foreign policy that befits a great power in a perilous world.

It is in that spirit that ACDA presents to you the Administration's request of $46.2 million to fund its arms control and nonproliferation work in Fiscal Year 1998.

ARMS CONTROL AND NONPROLIFERATION CONTRIBUTIONS TO U.S. NATIONAL SECURITY BY THE U.S. ARMS CONTROL AND DISARMAMENT AGENCY

- Led the successful USG preparations for and managed the U.S. delegation to the Extension Conference of the Nuclear Non-Proliferation Treaty -- the fundamental basis for our nuclear nonproliferation policy. The decision of the Conference, taken without a dissenting vote, made permanent this indispensable legal and political barrier to the spread of nuclear weapons.
- Led interagency efforts that resulted in strengthened security assurances for non-nuclear weapon states party to the NPT through action by the President and adoption of a Security Council resolution, steps which enhanced the NPT and contributed to achievement of its indefinite extension.
- Managed USG policy (through backstopping and representation on the U.S. delegation) for successful negotiation of a Comprehensive Nuclear Test Ban Treaty.
- Managed USG policy (through backstopping and heading the U.S. delegation) for negotiation of a legally-binding protocol to strengthen the Biological Weapons Convention.
- Continued to manage U.S. participation in the Chemical Weapons Convention Preparatory Commission and organized the U.S. Office of National Authority for implementation when the United States ratifies the CWC.
- Managed USG policy (through chairing backstopping) for negotiations of a future Fissile Material Cutoff Treaty.
- Managed USG policy preparations for negotiation in the Conference on Disarmament in Geneva of a comprehensive ban on Anti-Personnel Land Mines.
- Led USG participation in negotiations leading to the African Nuclear Weapons Free Zone and coordinated interagency preparation of legal documentation for U.S. signature to its protocol. Coordinated preparation of legal documentation for U.S. signature to the protocol to the South Pacific Nuclear Weapon Free Zone.
- Contributed significantly to the IAEA's ability to detect undeclared nuclear activities by leading U.S. Delegation to IAEA committee on strengthening international nuclear safeguards (more than 65 countries; final agreement expected in May 1997).
- Developed and negotiated with North Korea procedures for dealing with plutonium bearing spent fuel to ensure its safe storage under IAEA safeguards and continue to coordinate U.S. support for IAEA activities in North Korea.

- Provided essential technical and nonproliferation policy expertise leading to enhanced transparency measures for the agreement to purchase HEU from Russia, the end of production of weapons-grade plutonium, and setting of the direction for international cooperation within the G-7 to help Russia secure and ultimately dispose of its excess weapons plutonium.
- Led interagency efforts to develop a verification regime for the agreement to end permanently Russian production of weapons-grade plutonium and led the technical team that successfully negotiated these provisions.
- Initiated and implemented a training program on arms control verification for the Korean Arms Verification Agency to enhance regional arms control; a similar program has been approved for delivery to Chinese arms control officials.
- Ensured restoration of funding for several NTM systems, including COBRA DANE and COBRA JUDY radar systems, assets vital to the verification of compliance with arms control agreements.
- Became the sole USG entity responsible for developing, in coordination with other national security agencies, the analysis of other nations' compliance with arms control agreements and the assessment of the verifiability of arms control provisions.
- Coordinated USG arms control research and development through the Nonproliferation and Arms Control Technology Working Group, for which ACDA is the Executive Secretary and co-chair (with DOD and DOE).
- Played a key role in developing U.S. policies which led to START I Treaty entry into force, the withdrawal of nuclear weapons from the territories of Belarus, Kazakstan, and Ukraine, and the accession to the Nuclear Nonproliferation Treaty as non-nuclear weapon states by those same countries.
- Managed the negotiation of the START II Treaty, which increases national security by providing for a dramatic reduction in the total number of strategic offensive arms as well as prohibits heavy ICBMs and multiple warhead ICBMs.
- Played a leading role in advocating U.S.-Russian negotiations on nuclear warhead controls and monitoring to reduce the threat of "loose nukes," now a key component of the U.S. post-START II strategic arms control negotiating framework.
- Led and managed policy implementation of the INF and START Treaties. For example, the Joint Compliance and Inspection Commission (JCIC), for which ACDA provides the U.S. Representative, has concluded to date a number of documents clarifying START Treaty provisions and codifying agreement on procedures mandated by the Treaty.
- Provided the U.S. Representative to the CFE Review Conference, the U.S. chief delegate to the CFE Joint Consultative Group, and the U.S. Representative to the Open Skies Consultative Commission in Vienna.
- Provided U.S. Representatives to the Comprehensive Test Ban Treaty Organization, the Preparatory Commission of the Organization for the Prohibition of Chemical Weapons, the Conference on Disarmament, and the U.S. head of delegation to the Biological Weapons Convention Ad Hoc Group.
- Provided the U.S. Representative to the Special Verification Commission (INF Treaty) and the U.S. Commissioner for the Standing Consultative Commission (ABM Treaty). ACDA also provides the head of delegation, delegation executive secretary, and technical experts for State-led delegations on nuclear transparency, plutonium production cessation, and related activities.
- Provided staff support for both the U.S. delegation and the international staff in supervising implementation of Article IV of the Dayton Accords in Bosnia.
- Ensured that nonproliferation equities were taken into account so that the use of the Global Positioning System would not be used for providing guidance to, and improving the accuracy of, missiles employed by governments with interests inimical to the United States.
- Ensured that U.S. National Space Policy took account of arms control treaty equities regarding the use of space, and sought to ensure that the National Space Policy adequately guarded against military activities in space by governments with interests inimical to the United States.
- Commenced a dialogue with China on strategic and other arms control issues as a component of the United States strategy of constructive engagement.

EFFORTS TO DOWNSIZE, ELIMINATE REDUNDANCY, ECONOMIZE, AND STREAMLINE BY THE U.S. ARMS CONTROL AND DISARMAMENT AGENCY

- Reduced the administrative support infrastructure by eliminating 19 FTE within the Offices of Administration, Public Affairs, Congressional Affairs and General Counsel since FY96. This represents a 23% reduction in these domestic support offices. Additionally, since FY95, nine administrative positions, representing a 45% reduction, were eliminated overseas.
- Avoided a capital investment of approximately $90,000 and sourced referral and counseling services through an MOU with the Department of State for ACDA use of the State Career Development and Resource Center.
- Reduced the number of executive vehicles by 50% and apartments overseas by 40%.
- Consolidated office space in Geneva into the U.S. Mission for a savings of $750,000.
- Supported USG preparation for participation in the 1995 NPT Review and Extension Conference through reorganization and identification of temporary resources; after the Extension Conference was successfully completed, reorganized again to optimize ability to address other nonproliferation challenges.
- Reduced number of ACDA personnel in The Hague (CWC PrepCom Delegation) by acquiring detailees for permanent change of station from other agencies.
- Co-chaired with OSD the task force for development of verification elements of BWC Protocol.
- Dual-hatted the ACDA representative as the Deputy Head of the U.S. Delegation to the Conference on Disarmament and the IVI Bureau representative as the Deputy Head of the U.S. Delegation to the Biological Weapons Convention Ad Hoc Group, consolidating administrative and functional responsibilities and saving personnel slots; and dual-hatted ACDA staff among CTBT, UNFC, Fissile Cutoff and Land Mines activities, allowing absorption of additional backstopping responsibilities without personnel increases.
- Absorbed Office of National Authority requirements for CWC implementation into existing manpower structure.
- Reduced overall personnel requirements by two people by managing inter-bureau task force on Fissile Cutoff negotiations.
- Consolidated the Agency role in the development and implementation of verification and compliance policy within a single bureau, the Bureau of Intelligence, Verification, and Information Management.
- Consolidated most of ACDA's export control functions into a single ACDA Division and implemented a new automated interagency export licensing referral system for dual-use goods and technologies, under Executive Order 12981, achieving unparalleled processing time.
- Consolidated ACDA's Vienna operations for CFE implementation, OSCE, Open Skies, and Bosnia (Dayton Article IV).
- Eliminated a division and its division chief SES position by transferring the Defense Conversion Division from NP and incorporated it within SEA's Strategic Transition Division.
- Eliminated the International Security Division of the Bureau of Multilateral Affairs by dividing its functions among the remaining divisions of that Bureau.
- Avoided expensive duplication by using the State Department and Diplomatic Telecommunications Service communications lines to connect ACDA computers to overseas delegations.
- Decreased the need for paperwork and meetings on intelligence and technology matters and increased dramatically the amount and kinds of information that will be made available to interagency delegations by working with DOD and the Intelligence Community to establish connectivity to Intelink, Intelink-S, and SIPRNET.
- Saved hundreds of thousands of dollars by jointly developing with the Department of Commerce the Chemical Weapons Convention data declaration software.
- Reduced costs for both ACDA and State by jointly developing with the Nuclear Risk Reduction Center the CWC communications systems.
- Streamiined and sped the formulation, implementation and recording/reporting of arms control and nonproliferation deliberations and policies and eliminated reliance on tedious outdated processes by implementing a system to enhance accountability for and rapid access to sensitive diplomatic, Presidential and Executive Branch arms control and disarmament correspondence, decisions and policies.

Senator GRAMS. Thank you very much, Mr. Holum. We will begin a couple rounds of questioning, and maybe hold them to about 7 or 8 minutes each, so we can get through a number of questions with you before the half hour.

Director Holum, as I said in my opening statement, the subcommittee will not be questioning you today at all on the specifics of any particular proposal to reorganize the State Department and its related foreign affairs agencies, but this issue has come up repeatedly in earlier hearings that have been held by me and by Senator Chuck Hagel, who is Chairman of the Subcommittee on International Economic Policy. So therefore I would just like to ask you, is it your understanding that the administration is developing a reorganization plan for U.S. foreign affairs agencies, and that this proposal will be presented to Congress?

Mr. HOLUM. We are certainly looking very hard at how we can restructure and integrate our functions in the most effective and efficient way to carry out the various missions of the Department of State and the three foreign affairs agencies. It is premature, I think, to forecast a specific outcome of that review, but it is consistent with Secretary Albright's testimony during her confirmation hearing that she wanted to examine these issues carefully. I think we have a continuous obligation to do that.

The extent to which any change would require legislative authorization is still an open question. There are a lot of things, obviously, we can do, including the streamlining we have done under the Gore Reinvention Plans, without legislative authority, but it is something we obviously want to work on with the Congress. We certainly want to hear your views, as well as present our ideas.

Senator GRAMS. In that respect, has there been an effort to actively seek your input specifically into any of this development of a proposal?

Mr. HOLUM. Yes.

Senator GRAMS. So you have been talking to them?

Mr. HOLUM. Yes.

Senator GRAMS. When the Foreign Relations Committee considers legislation to streamline our foreign affairs agencies and reduce duplication of services, we will look to steps, if any, that ACDA of course has undertaken to eliminate duplication within its sister agencies. But, as you know, ACDA already relies on the State Department's Inspector General for audits and investigations. In its fiscal year 1998 budget, your agency is requesting a total of about $15 million to employ 63 staff in its offices of administration, Congressional affairs, general counsel, and public affairs.

So what attempts has ACDA made to insure that these functions do not overlap with State Department activities?

Mr. HOLUM. As I mentioned in my statement, Mr. Chairman, we have eliminated roughly 28 total, including overseas and domestic, administrative positions. We have also eliminated positions in the Office of Public Affairs. So we are scaling back in those areas.

One of the consequences of our legislative mandate is that we conduct public information activities, so I hesitate to say that ACDA is excessive in that area. We, for example, maintain a Web page and we circulate a lot of information. We have thousands of requests annually from the public, so a lot of our work is devoted

to serving those concerns. But we are continuing to streamline in all of those areas.

I might mention that in terms of consolidating administrative services, it is not always a case of consolidating into the State Department. In the case of the motor pool in Geneva, a rather mundane subject but nonetheless important, and expensive, the decision was made that the ACDA operation was more efficient. So on the basis of that, the State mission in Geneva has relied on our motor pool for their services. But that is the kind of activity that is under continuous review.

Senator GRAMS. So in other words are you saying that ACDA has explored ways of relying on existing offices within the State Department for some of these functions in an effort to find some cost savings, that you are looking at ways to integrate and to use those facilities or officials when possible, and vice-versa?

Mr. HOLUM. That is right. And in fact that was one of the mandates that came out of the Reinvention examination of the foreign affairs agencies under Vice President Gore. We looked at thirty-some administrative areas. In many of those cases, because we are physically inside the State Department and because we do not maintain a presence continuously in more than three places abroad where we have negotiating missions, we are already heavily integrated with the State Department and have been historically, but we looking at more. As you said, the Inspector General of ACDA and State have been merged, and that has been true for a number of years.

Senator GRAMS. So, as you said, we will look forward to the details on that type of activity. When it comes to streamlining, ACDA's Inspector General determined, it was back in August 1995, that, quote, "ACDA's overall response has been slow," and that, quote, "even the modest proposals made by the National Performance Review Task Force have not yet been implemented." That judgment seems to have been reiterated in an October 1996 IG report which stated that ACDA's actions have not yet resulted in a net reduction of full-time equivalent positions.

ACDA's fiscal year 1998 budget request contemplates a cut of 10 positions, but in the 1995 Pell report ACDA declared that, quote, "our streamlining will eliminate 34 full-time equivalent positions." Do you contemplate any further personnel reductions in the future then?

Mr. HOLUM. We are about to submit a final duplication report that was mandated in a House Appropriations subcommittee report. We have gone through a very diligent and careful effort to eliminate duplication and overlap.

One of the things that is difficult to get a handle on is the extent to which people might be working on the same thing in State and ACDA generally but doing different work related to it. A good example is our delegation to the International Atomic Energy Agency that monitors safeguard agreements under the Non-Proliferation Treaty. The U.S. Governor for that agency is a State Department official. Our Ambassador to the international organizations in Vienna is a State Department official. But the technical expertise and the delegations that go over to negotiate the details of changes in safeguards are ACDA personnel with a long technical history in the

area. You could say that they are all duplicative in the sense that they work on the same thing, but they do different work. We need to be careful not to just eliminate on the basis of line items of authority.

What the first duplication report concluded was that there were some 37 people in the State Department working on arms control, the primary mission of ACDA, and half of those were affiliated with the Nuclear Risk Reduction Center, which is an administrative function that the whole government relies on. Of the others, many, I think all but nine have since been eliminated. We have also since eliminated a number of positions, and we are in compliance with the Inspector General's requirement.

Senator GRAMS. I would just like a quick follow up. How many of the ACDA 28 personnel reductions were full-time equivalent, compared to part-time or temporary staff? Do you have those numbers?

Mr. HOLUM. There were 19 full-time equivalent personnel.

Senator GRAMS. Thank you very much. Senator Feinstein.

Senator FEINSTEIN. Thanks, Mr. Chairman. Mr. Holum, some on this committee have questioned whether ACDA is the most appropriate agency to house the Office of National Authority for the Chemical Weapons Convention. Assuming, of course, that this body ratifies the treaty, which I hope we will, does ACDA provide any special expertise or abilities that make it the best or most logical place for this office to be housed, and what would be lost if it were located somewhere else in government, such as in the Departments of Defense or Commerce?

Mr. HOLUM. The Office of National Authority is, as you know, the agency that interacts between the United States and the international body. ACDA will provide the staff support for that, but the function will be an interagency function involving all the agencies that have responsibilities. I think the main reason why ACDA is the logical agency to do this, aside from the mandate of legislation assigning us the implementation function, is that ACDA is the agency that negotiated the treaty, and therefore has the deepest expertise in the substance of the treaty, and also in developing and being very frugal, I might say, in developing the Preparatory Commission activities that have been underway until now. I think it is most efficient to have the people that are knowledgeable and experienced do the work.

If it were assigned elsewhere, the likely outcome would be that they would try to hire the people from ACDA who have been doing it, and it would mean we would lose some of our in-house expertise on chemical weapons and other issues because a lot of these people work on more than one thing.

Senator FEINSTEIN. Thank you very much. Given that the Comprehensive Test Ban Treaty cannot enter into force until India and North Korea have acceded to the treaty, could you describe your current negotiating efforts to implement this treaty? I think it is extraordinarily, very important. Yesterday I had a brief meeting with the vice foreign minister of North Korea, and made the point to him how important the agreement with respect to the nuclear power plant was in their country, and that it must be followed. He

indicated their willingness to have peaceful reunification and confidence building with South Korea.

I would be very interested in any comments you might be able to make which could update us both on the Indian situation and the North Korean situation.

Mr. HOLUM. In the case of the test ban, actually, North Korea is a transition point in this answer because they are one of the indispensable countries for the entry into force of the test ban, along with India and Pakistan. Forty one out of the 44 necessary countries have signed the treaty. We have a great deal of work to do to persuade the Indians that it is in their interest to ratify. I think if the Indians do, the Pakistanis will. They have said that they will not until India does.

Our approach is a careful one, making clear to India that the test ban is consistent with India's long-standing position, going back to Prime Minister Nehru in the 1950's, that this is something that they have agitated and led for, and that it does not undermine their security interests. They have an interest, I think, in making sure that their neighbors do not advance their nuclear capabilities.

Senator FEINSTEIN. Not to interrupt you, but I do not understand why they would not ratify it, unless again it is the Pakistani situation, and what we are going to see is an escalation.

Mr. HOLUM. Well, they have given several reasons, a principal one being their concerns about China and their interest in preserving their nuclear option. But the test ban as such does not change their ambiguous nuclear posture. I think they will make this decision in the first instance based on their national security interests.

They also make the argument that the Conference on Disarmament should establish a committee to negotiate a time-bound framework for the elimination of all nuclear weapons. It is just not going to happen that way, that is a non-starter in terms of negotiations, and I think a way to prevent the test ban from entering into force and prevent progress rather than accelerate it.

But we have 2 years, I am sorry, 3 years to work on this ratification issue. 2 years to ratify—the earliest it can enter into force is in 2 years, and then after a third year, if it is not in force, there can be a special conference to examine steps to encourage the further ratifications. We plan to be very active in all of those efforts.

Senator FEINSTEIN. Would you speak a little bit about North Korea, because if it is going to keep its agreement, there is no reason why it should not sign this treaty.

Mr. HOLUM. That is right, and North Korea has not, to our knowledge and I think we would know, conducted any nuclear explosive tests. I have always maintained that as we go through and implement the agreed framework and freeze their nuclear facilities, that the implementation would be every bit as complicated as the negotiation of that framework, which is to say very complicated and very difficult. And it has proven to be that way. Political disruptions, any kind of event, can set things off track.

But the bottom line is that we are satisfied that the agreement is being kept, that the reactors, the small reactor that was producing the potential for plutonium is shut down, that the canning operation is proceeding on the spent fuel so that it cannot be reprocessed, that the reprocessing plant is closed, and that the other re-

actors are not being built. So, I think we have averted the threat of not only the material they diverted a couple of years ago, but the potential for a number of nuclear weapons every year to be produced out of those additional reactors.

But it is not over yet. The end point is when the North Koreans will have the obligation to persuade the IAEA not only that they are not producing plutonium now, but to account for the discrepancies in their past behavior. And that has to happen before there will be the first item of value provided that will make the light water reactors operational. So we have a lot of work to do. The interim steps are being fulfilled, but this is a long way from over.

Senator FEINSTEIN. Could I ask one other quick question?

Senator GRAMS. Sure.

Senator FEINSTEIN. The Ambassador from South Korea indicated to me his country's concern about an agreement for Taiwan to store their nuclear waste in North Korea. Could you tell us what you know about that agreement, and what precautions are being taken? Because all of that water flows north into the Arctic, and unless the nuclear waste is really properly stored it could present real hazards, I think, to a large area of that ocean bed.

Mr. HOLUM. Yes. We are not supporting that idea at all, for the reasons you cite. There is a serious risk that the material, while probably not a proliferation risk, is a pollution risk, and there are very serious doubts about the capacity of North Korea to handle that material properly. I cannot go into much more detail in an open session about specifically what we know and where the transaction stands, but we can provide additional information either in a closed briefing or for the record.

Senator FEINSTEIN. If you could do that, I would appreciate it very much. I am very interested.

Mr. HOLUM. I would be happy to.

[The following material was subsequently supplied for the hearing record by Mr. Holum.]

We first raised this issue with Taiwan Atomic Energy Council officials in December, 1996. These officials confirmed that they had heard a rumor of a deal involving the Taiwan Power Company (Taipower), but they assured us that before any such shipment could take place, a license would be required and that this would provide an opportunity for review.

We subsequently had numerous discussions with various officials from Taiwan. We have consistently emphasized that we do have concerns about this shipment based on regional sensitivities, and that we want to ensure that (1) the transfer does not interfere, even inadvertently, with the IAEA implementation of the U.S.-DPRK Agreed Framework; and (2) that the transfer conforms to the safety and environmental aspects of the IAEA's Code of Practice on the International Transboundary Movement of Radioactive Waste.

We have consistently urged Taiwan to discuss all aspects of this shipment with the IAEA. We understand that a team from Taipower visited Vienna last month for preliminary discussions, and we expect more consultations to follow.

As we understand that no uranium or plutonium is involved, we have no reason to believe that this deal is a proliferation concern. However, Taiwan has invited the IAEA to make a special visit to Taiwan to confirm this, and we expect the IAEA to accept that invitation. We hope that the IAEA would be invited later to visit the disposal site to confirm the safe disposal of the material.

Senator FEINSTEIN. Thank you, Mr. Chairman.

Senator GRAMS. Thanks, Senator. Back to some questions on staff, technical experts, Mr. Holum. In the July 1995 Pell report, you heralded the value of ACDA as an independent, technically competent arms control agency. In February 1995, ACDA declared

to Congress its intent to, quote, "strengthen its scientific and technical capabilities, coupled with new authority to hire specialized technical and expert personnel." Yet in August 1995 the Inspector General concluded that ACDA's managers have not considered it necessary to increase the proportion of scientific or technical specialists on its staff.

When you look at an internal review of ACDA's staff in 1994, it shows a total of 80 academic degrees in political science, government, and international relations, and that was compared to 57 degrees in the hard sciences. Now, the IG report said, again, quote, "the agency's instinct to duplicate policy expertise already found in other agencies, as well as a disinclination to give higher priorities to scientific expertise, removes a creditable additional argument for its existence." So with that, what steps have you taken since then to reverse this imbalance, and also to try and ensure the majority of ACDA's personnel are trained scientific or technical specialists?

Mr. HOLUM. Our ability to hire additional technical specialists depends to a considerable extent on where the vacancies occur. That is not the only skill we require. A lot of our work is in active negotiations, which requires the skills of a negotiator. A lot of our scientific personnel have developed those capabilities, but there are others who have them as well. So I would disagree with the notion that we should be completely dominated by technical staff. We are a negotiating body to a very large extent.

As the positions open, we look very hard for qualified scientific personnel. Another thing we do is rely on our Foster Fellows Program, which is almost entirely made up of scientists, because our need for a particular expertise will change over time. When we are negotiating a compliance protocol for the Biological Weapons Convention, we need biological experts, experts in the biosciences. For the CWC, obviously, we needed chemists. What we do is go for the short-term period through the Foster Fellows Program, is bring in academics for a year. We also use consultants extensively for short-term assignments.

I will get you an updated figure on the proportion of our personnel, which I will be happy to do. My impression is that we have continued to look for qualified scientists, but I do not know the ultimate impact. Remember that we have been shrinking, so we have not been doing as much recruiting as we might otherwise.

Senator GRAMS. I do not think the intent was that you be inundated with all technical experts, but you are satisfied, then, with the ratio, you believe, of the expertise that you need compared to administrative duties?

Mr. HOLUM. What I can say is that when I look for technical expertise for a particular function, I do not find us missing it in the agency, that it is inaccessible. It is there. For example, ACOA has a former military officer who is one of our leading experts on chemical weapons. He is not a scientist, but because he has worked with these issues for the last 20 years, I would not trade him for a leading chemist because he knows the ins and outs of the disciplines that are relevant to the arms control mission. All I am saying is that it is not as stark a picture as one group does one thing and one group does another.

Senator GRAMS. ACDA's fiscal 1998 budget request included $2.8 million as an assessment that was to establish a preparatory commission for the Comprehensive Test Ban Treaty. Aside from the fact that I am concerned that the administration is seeking money for an organization established by a treaty for which the Senate has not given its advice and consent, there is also concern that money spent on this organization may be wasted. Entry into force of CTBT requires ratification by 44, I think as Senator Feinstein mentioned, specific nations. One of these, India, has sought to block the CTBT at every step, vetoing it in the Conference on Disarmament, voting against it in the United Nations, and declaring that it will not sign the treaty. North Korea, again as the Senator mentioned, a similar case because the CTBT will not enter into force until these countries have ratified it.

I believe swift implementation is unlikely, so how can you assure the subcommittee that ACDA is not requesting money for an organization that will have little to do for years to come, that is until India and North Korea agree to let the CTBT move forward?

Mr. HOLUM. The basic premise is similar to the one that has been applied in the case of the Chemical Weapons Convention: that is, the treaty contemplates that once entry into force arrives, the ability to monitor compliance should be up and running. Therefore, we are beginning our own program to add the sensors that will be required by the treaty, including various kinds of sensors on United States territory. And we are anxious for others to do that because when the treaty enters into force we want the system to be operational.

The amount requested for fiscal 1998 is $2.8 million. Our share of the operations of the CTBT organization, whose first year budget has just been funded, is 25 percent, and we think it is essential to have this structure ready for operation when the treaty enters into force.

Senator GRAMS. One final question I would like to ask is, again I will go back to August 1995 when ACDA's Inspector General determined, and I quote again from that report, ''the utility of the many research projects commissioned by the agency have come into question as bearing little relation to the agency's priority goals and objectives. The policies established by the agency for its external research programs require that the research review board identify arms control issues over a 3 year planning period and select the external research necessary to support such issues. So far the process has not been undertaken.''

So at the time ACDA was requesting $1 million in funding for external research projects. It seems that ACDA is still spending money on these projects since the fiscal year 1998 budget request includes another $822,000 for external research. Has ACDA implemented the planning process referenced in the Inspector General's report?

Mr. HOLUM. All of the recommendations in the Inspector General's report have been closed. There were 28 recommendations and they have all been resolved but one. That one relates to the question of examining or predicting the costs of arms control treaty implementation.

I can tell you that our external research budget is devoted to immediate and high priority matters. In fiscal 1977 we have allocated it for Comprehensive Test Ban implementation and verification studies, Chemical Weapons Convention implementation and verification, looking to the future of strategic arms control in START III and beyond, and studies on regional arms control issues which are a very important part of our mission.

So we devote the money to high priority, current matters, number one and number two, this research is highly leveraged. Very often what we do is propose a small amount of ACDA funds that would be accompanied by large amounts of funds from the Department of Energy, Department of Defense, or another agency or the intelligence community to focus on a particular issue. So I think we get very good value for our research funding.

Senator GRAMS. A lot of the concern was how they differ from the studies that are undertaken by the agencies such as DOE, the Defense Special Weapons Agency, et cetera. So it seems like it is duplicative, again, studies or projects.

Mr. HOLUM. It is not duplicative, and in fact one of the things that I am proudest of that ACDA has been doing, and this is pursuant to the 1994 legislation, is basically being the organizer, the convener of a nonproliferation and arms control technology working group whose specific responsibility is to examine the possibility of both overlaps and gaps in our arms control and nonproliferation research. So we are working very hard, in fact I think improving dramatically across the board not only our own technical investigations and research, but roughly $5 billion of funds that are being spent on these subjects across the government. But in the case of our own funding, it is almost in every case seed money for additional studies by other agencies.

I also want to say that we try first to find, because our amount is so small, to find somebody else to do this, to do the work that we need, and we look first to see if it has already been done. The technology working group helps us do that.

Senator GRAMS. I am sorry I ran over my time a little bit. Senator Feinstein, I will turn to you. I know when you have to leave. If somebody from your staff wants to raise their hand, we will try and accommodate that.

Senator.

Senator FEINSTEIN. Thank you, Mr. Chairman. Mr. Holum, I wanted to spend just a few moments on this changing world as we know it today. I know when TWA flight 800 went down some people reported seeing this streak in the sky, and we began to take a look and we found that there are something like 60 stinger missiles that could be launched from the shoulder in a small boat floating around unaccounted for. That is point one. There is also the question of the loose nukes that I spoke about very briefly that are moving around the world and no one really knows too much about. There is the India-Pakistan situation, where both countries have the potential and perhaps already the ability to be indigenous nuclear producers, and can launch devices within a couple of weeks. Then we move to the Aum Shinryko cult in Japan and the production of chemical weapons in a civilian society, let alone what we know about chemical weapons that are still being produced

around the world. So the list of these new challenges kind of goes on and on.

How has ACDA adapted itself, organizationally as well as substantively, to try to be pro-active and move ahead in this, quote, new world?

Mr. HOLUM. I would say the major way we have done that is through the strengthening of our nonproliferation bureau and its expanded work, as mandated by the Congress, in dealing with the proliferation threat in dealing with export licenses in particular. Up until 1994 the agency had very often been excluded from review of sensitive export licenses, for example to countries like Iraq, which was a proliferation concern in that period. That is being remedied.

The reason why the independent and purist, if you will, perspective of an arms control agency is important is because there may be a diplomatic reason why a military sale or an export, dual use export license should go through, and you need somebody there to say wait a minute, let us look clearly at the proliferation impacts. That is one of the things that we do more and more of.

Senator FEINSTEIN. Let me just stop you on this one point. OK, these are the legal movements of weapons. What is concerning me most are the illegal movements, the things that are found in flukes where you discover large caches of weapons that may be moving from one country to another. I think this is something to really be concerned about. How can you meet that? Does your budget allow for it? Do you consider this as part of your mission?

I happen to believe, and I am just speaking for myself, that this is a major problem in the world today, and we had better be on top of it.

Mr. HOLUM. Well, I personally believe that the most serious proliferation threat, certainly in the nuclear area, that we have to address is the danger that material coming out of nuclear weapons in Russia or out of research reactors scattered across the former Soviet Union, out of naval fuel facilities, will fall into the wrong hands. ACDA does not have the resources to deal with that issue exclusively, nor should we. It requires a whole range of answers, including by law enforcement agencies. We have an FBI office in Russia for the first time. Including, obviously, by the intelligence community, by military planning.

But there certainly is an arms control role in dealing with strengthening safeguards of those materials, arguing for and negotiating for limitations on the production and secure storage, and ACDA is very much involved in that, but it is something that needs to involve all agencies with relevant expertise because the danger is so high.

I hope that is responsive to your question.

Senator FEINSTEIN. Yes, except to this point. I think we are in a non-traditional time, and I think the seeds of potential future destruction can be well established in this non-traditional window of opportunity that is out there. Some agency—I understand law enforcement, I understand the FBI, I understand the CIA, I understand all of this—but somebody on behalf of this nation has to really take the responsibility. In terms of arms control, I think the whole kind of untapped area is the illegal movement of arms, and

there I think we are way behind the action. I do not think we are ahead of the action. I do not think we have the intelligence sources that are adequate.

You say your agency really is not staffed to do this, and, Mr. Chairman, I would agree they are not staffed to do it, but in my opinion this is an unmet need out there and I think we have got to get cracking to take a look at it.

Mr. HOLUM. I would make the argument that there is quite a bit going on.

Senator FEINSTEIN. Well, tell me who knew about Aum Shinryko?

Mr. HOLUM. I am glad you brought that back up, because that is one I would specifically want to refer to. There is not a silver bullet to deal with these issues. It requires a whole range of capabilities. That is one of the reasons why I think the Chemical Weapons Convention will help. I do not maintain that this treaty is even aimed at terrorism. Its purpose is to be a treaty that deals with chemical arsenals maintained by countries, and obviously terrorist groups do not join.

But the treaty requires every country that is a member of the treaty to adopt domestic implementing legislation to make possession of chemical weapons against the law. It is not against the law here now, and it was not against the law in Japan at the time when the Aum Shinryko cult was buying chemical weapons precursors. That would be controlled by the treaty and would be controlled under implementing law on the market in Japan. Japan's reaction was to ratify the Chemical Weapons Convention and to pass, more particularly, the domestic implementing legislation.

We have had experiences here to show how that can help. Under the Biological Weapons Convention, which does not have a verification regime but does have domestic implementing legislation, we have interrupted potential domestic terrorism using biological agents. In 1995 there was a case where a medical supply house in Rockville, Maryland got an order from an organization in Ohio for plague bacillus, and they filled the order but reported it to the authorities because of the domestic implementing legislation. They interrupted the shipment, which turned out to be, I think it was a skin head group that was trying to acquire this stuff.

So I think it goes to the point that you need the whole range of additional tools, and obviously an enforcement determination, strong intelligence capabilities. And I agree with you, Senator, the non-traditional threats are the ones we need to worry about the most now.

Senator FEINSTEIN. Could I just ask one other question? Could you provide to this committee, and if you need to do it on a classified basis that is fine, I am also ranking on the terrorism subcommittee of Judiciary, how the specific components of the Aum Shinryko sarin gas was purchased, and from where it was purchased, and exactly how this was done?

Mr. HOLUM. Sure. We can do that.

Senator FEINSTEIN. I appreciate that very much. Thank you. Thank you, Mr. Chairman.

Senator GRAMS. I have just one clarifying question before you leave, Mr. Holum. Declassified statements by the intelligence com-

munity make it quite clear that the CWC would not have done anything to stop that terrorist chemical attack in Tokyo. Is that true?

Mr. HOLUM. I am not sure I agree. It is true that that is what the statements say, or the examinations say. But what I am referring to is the broader chilling effect of the domestic implementing legislation and the impact that might have had. You would still have to have law enforcement under that domestic implementing legislation. I started out by saying the treaty is not aimed at that kind of thing. I have said that I think it would help deal with that kind of problem.

Senator GRAMS. So it would not provide the type of security or calming effect that we might have it projected to do?

Mr. HOLUM. On the contrary, Mr. Chairman. My feeling is that the treaty, by giving us more information about the dangers, will cause us to be more prepared than we are. This treaty is not going to make the danger of chemical weapons, either by countries or terrorists, go away. What it will do is give us some additional tools to deal with those dangers, but those dangers will persist. There are going to be countries that will join and try to cheat, there will be countries that will not join. So we are still going to need to keep our guard up, and we are going to need the political will, and to amass the political will internationally to enforce the treaty.

Senator GRAMS. I want to thank you for your time. I know you have to leave, but I just wanted to ask unanimous consent that this hearing's record be kept open for 3 business days for the submission of written questions by any member of the Foreign Relations Committee. Mr. Holum, I do not believe that these written questions will be unreasonable. Of course, in view of the fact that the Foreign Relations Committee is preparing the State Department Authorization Bill, I would just like to ask if you could assure this committee that you will be able to respond within a week of the submission to you?

Mr. HOLUM. I am quite confident we can, and would be happy to do that. I would also like to submit for the record, if I can, more specific detail, if I did not ask to do that, on the breakdown of scientists and professionals.

Senator GRAMS. We would appreciate that information.

I have a couple of questions that I will submit in writing, and others have as well. So again, if you could promptly get them back to us so we can move ahead with this project.

Thank you very much, Mr. Holum. I thank you for your time.

Mr. HOLUM. Thank you.

Senator GRAMS. Our next panel, again I want to welcome the Honorable Princeton Lyman, Acting Assistant Secretary of State of International Organization Affairs. Mr. Lyman, welcome to the committee. I want to thank you for taking your time to be here, and I would like to open it up for your opening remarks if you have those, and again just ask if you could keep them brief if possible. Welcome.

STATEMENT OF AMBASSADOR PRINCETON N. LYMAN, ACTING ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS

Ambassador LYMAN. Thank you very much, Mr. Chairman, and Senator Feinstein. First of all, let me express my personal appreciation and gratification for the support of the committee for my nomination. I am very honored. I am grateful also for the opportunity to testify this morning on behalf of the administration's request for our contributions to international organizations. I have provided the committee a written statement, and with your permission, perhaps that could be put in the record and I will just summarize some comments here.

Senator GRAMS. It will be accepted into the record.

Ambassador LYMAN. Before going into the details, however, with your permission I would like to call attention to a presentation I heard just the other day on the child survival program, a program that involves both multilateral and bilateral donors and a major role by the private sector. As you know, this program has operated over 10 years with very strong bipartisan support, and it seeks to immunize children and provide other support to decrease dramatically the tragedy of child mortality. I learned in this presentation that because of this program 3 million children each year are now saved, children that would otherwise just a few years ago have died in infancy.

My wife and I know the pain of losing a child, so perhaps that is why I was so attracted to this presentation. Millions and millions of children are alive today, and so much terrible family pain and tragedy is avoided because of this collaborative effort. I raise it because it is a program of which we can all be proud. It has been a bipartisan effort. It involves international organizations such as UNICEF and WHO. USAID has been a major donor; the private sector—Rotary, Kiwanis—are involved in a major way. It is the kind of results that we all want from the U.N.

When we talk of dreary things, if you forgive me, like budgets and reform and restructuring, we are all of us, as you said to me yesterday in your office, Senator, we are really talking about making the U.N. a strong, effective organization that delivers results like these to people, our people and people around the world. We want a U.N. that will deliver just as strongly as it does in this program of child survival in preventing new infectious diseases from spreading across the world, dealing effectively with the threats of terrorism and drugs, which have been discussed earlier, with corruption that robs countries of development and business of honest profits. We want a U.N. that helps in conflicts which cause such havoc and humanitarian disaster and send thousands upon thousands of refugees and migrants out of their country. This is what U.N. reform and U.N. support are all about.

There is another aspect of our interest that I would like to call attention to. In the proposals that I will summarize shortly is our proposal to address the arrears problem. There are many reasons to do this, but the one that concerns me the most is the preservation of U.S. influence. And let me be very candid. Today the European Union countries provide 35 percent of U.N. finances, something the EU is very quick to point out. Japan provides nearly 18

percent. Together they provide more than half the funding for the United Nations, the specialized agencies like the FAO and for peacekeeping. They are our allies, and their contributions are a boost to our own interest.

But we also differ on some issues, and in the economic area we are competitors and our interests do not always coincide. Many of the organizations that we are discussing today are charged with making findings, sometimes very technical but which have a major bearing on our trade. For example, FAO—where the European commission is a member in addition to the EU member states—together with WHO sets the phytosanitary standards which govern much of the $60 billion of U.S. agricultural exports. At this very time FAO is studying the issue of biotechnology and its proper role in setting these standards. It is an issue of tremendous importance to our agribusiness industry, affecting virtually every State in the union.

Up to now the FAO has responded to these issues with the best evidence and on a scientific basis. Our voice has been strong. But agricultural interests in the U.S. are worried about the future if we continue to fall behind as others maintain their place. Today we owe FAO over $100 million in arrears, more than a full year's assessment. I want the United States to maintain its influence, its presence, its place in all these discussions, in all these decisions, so that they remain scientifically based and fully fair to our trade. We cannot concede our proper place.

That, and a dozen other examples I might give, are the concerns that have led the administration to seek to deal with the arrears question comprehensively this year, to remove it from the international agenda, keeping the U.S. in a strong position wherever its interests are at stake.

We are thus at a critical juncture regarding future U.S. participation in international organizations, but it is also a time of exceptional opportunity. We believe we can accomplish three ambitious and demanding tasks working together over the next few years.

First, substantially reform and reinvigorate the system so that it can meet the challenges of the 21st century. Second, reassert and sustain American leadership. And third, reduce U.S. financial contributions to a politically sustainable level in the United States. And that is what our proposal is designed to achieve.

In concrete terms we are proposing $969,491,000 to cover the full assessment of these organizations for the calendar year 1997, which we pay from our fiscal 1998 appropriations. For peacekeeping, $240 million, and I want to note that that is $66 million below last year's request. It is still vitally important, but we have been able to reduce the number of peacekeepers from 85,000 a few years ago to just over 25,000 today. And for international conferences and contingencies, $4.9 million. Finally, and I know those are not the subject necessarily of our hearing today, international organizations and programs, our voluntary contributions, $365 million.

At the same time, as you noted, Mr. Chairman, we are requesting that we pay in full the arrears that we recognize under the first two of these accounts, that is the contributions to international organizations and to peacekeeping. We are requesting $100 million in

fiscal 1998 for this purpose, and an advance appropriation for fiscal 1999 of $921 million.

I want to underscore the importance of all these requests because they all serve American interests. From your opening remarks, Mr. Chairman, and from those of the distinguished Senator from California, I think we are very much in agreement on the principles by which we should proceed to address these problems, because parallel to the provision of the funds that we have requested, the administration does indeed intend to continue its very vigorous pursuit of U.N. reform.

Largely at U.S. instigation and indeed with very strong Congressional support, several significant reforms have already been introduced. We have a no growth budget in the United Nations, we have the creation of an inspector general function, we have substantial cuts in staffing, we have an informal moratorium on future global conferences, we have, as I said, a substantial reduction in the number of U.N. peacekeepers, and much closer review and consultation in the U.N. and with the Congress on any new or expanded peacekeeping operation. But we still have a long way to go, and we know that.

We are pursuing a broad range of reforms designed to introduce better efficiency and budgetary discipline in every part of the U.N. system in which we operate, in UNCTAD, in the economic commissions, and in the specialized agencies. On the budgetary front in particular, and parallel with this funding request, we seek this year to cut overall U.N. costs and the U.S. share of these costs. It is particularly timely this year because in these next few months the budgets for the specialized agencies will be established for the 1998-'99 period, affecting our contributions in our fiscals 1999 and 2000. And this is the year in which the scale of assessment will be set for the next 3 years. So this is the year, if we are going to not only bring about budget discipline but lower the share of U.S. costs.

We have put on the table at the U.N. in New York a proposal to do that, to do two things: To get the U.N. to recognize the congressionally mandated cap of 25 percent on peacekeeping, and to bring our regular assessments down closer to 20 percent. That is going to be debated and it is going to be a tough debate, and we need your help. We have had support from allies, from others, from the Secretary General, from the U.N. General Assembly President, whom I think you met here in Washington not long ago, to carry out these and other reforms. But everybody says to us the same thing, we have to have a commitment from the United States that your arrears are going to be paid and this future funding arrangement will be one on which we can count.

That is why we have asked for the good faith indications present in both the FY–98 request and the advance appropriation. We think we need that leverage this year, indeed in the next few months, to carry out these reforms. I think with that we are going to get them, I really do.

I just want to say, Mr. Chairman, in closing, that, as you know, the Secretary has emphasized how important this is for the administration for our overall foreign policy. She welcomes, as do all of us in the administration, the formation of the leadership group to work with her and Ambassador Richardson and ourselves on this.

I want to assure you, Mr. Chairman, on behalf of the administration, that we want to work with the relevant committees who authorize and appropriate throughout this process. This has to be a collaborative process, it has to be one in which we reach an agreement on how to proceed.

On that basis, Mr. Chairman, I am more than happy to answer any questions that you have. Thank you.

[The prepared statement of Ambassador Lyman follows:]

PREPARED STATEMENT OF AMBASSADOR LYMAN

Mr. Chairman, members of the subcommittee;

I am grateful for this opportunity to testify before the subcommittee in support of the Administrations request for funding for international organizations and conferences for fiscal year 1998. This is considerably more than a routine funding request, and I hope to be able to use this session to explain what we are trying to achieve by it. Let me note at the outset that Secretary Albright and other Administration representatives are looking forward to the meeting with the Congressional leadership later today to engage more fully on proposals for reform of the United Nations.

We are at a critical juncture regarding future U.S participation in international organizations, especially the United Nations system. As recent experience has shown, the and its affiliated organizations are vitally important for the United States, as a forum for pursuing our broad policy goals in such diverse areas as security, trade and human rights, and as a source of practical benefits to the American people and American business. For example:

- The UN has helped to end civil wars and build democracy throughout the globe, notably in several Central American countries close to our own borders; massive flows of refugees from these countries can now be concluded;
- The World Health Organization, having eradicated smallpox at a savings to the U.S. of more than $300 million annually in immunizations costs, is now embarked on a similar worldwide campaign against the scourge of polio;
- The Food and Agricultural Organization sets quality and safety standards that help protect American consumers and facilitate U.S. food exports, which earn us more than $60 billion annually;
- And in the new threat areas of terrorism, crime and drugs, the UN is becoming an important force in mobilizing the international cooperation we need.
- The UN system serves our interests well. But our ability to use it effectively in the future will be undermined unless we can accomplish three ambitious and demanding tasks over the next few years: first, substantially reform and reinvigorate the system so that it can meet the challenges of the 21st Century; second, reassert and sustain American leadership; and third, reduce U.S. financial contributions to a politically sustainable level. The Administrations budget proposal is designed to give us the tools to achieve these goals.

In concrete terms, this proposal is as follows:

—for Contributions to International Organizations (CIO), $969,491,000, which would fully fund our assessed contributions for calendar year 1997;
—for Contributions to international Peacekeeping Activities (CIPA), $240,009,000;
—for International Conferences and Contingencies (ICC), $4,941,000;
—and for International Organizations and Programs (IO&P), $365,000,000.

In addition, the Administration is seeking funding to pay, in full, our arrears under the first two of these accounts. We are requesting $100 million in FY 1998 funds, $54 million for UN regular budget arrears in the CIO account and $46 million for CIPA; and an FY 1999 advance appropriation of $921 million as an FY 1997 supplemental.

While requesting this funding to cover our current obligations and past arrears, the Administration will at the same time continue its vigorous pursuit of UN reform. Largely at U.S. instigation, several significant reforms have already been introduced: adoption of a no-growth regular UN budget; creation of an inspector general function; and substantial cuts in staffing. An informal moratorium on global conferences is in place. The number of troops involved in UN peacekeeping operations has been reduced from 78,000 to about 25,000 over the past two years. New peacekeeping proposals are far more carefully reviewed for size, mission and exit strategy, as well as appropriateness to the task.

We have made a good start on our reform agenda, but clearly much more is required. And indeed our efforts continue unrelentingly. We are pursuing a broad range of reforms designed to introduce greater efficiency and budgetary discipline in every part of the UN system in which we participate—in UNCTAD, the economic commissions, FAO, the ILO and every other part of the system.

The Secretary General has the authority to adopt significant managerial reforms within the UN Secretariat, and we will continue to urge that he do so as quickly as possible. But the broader budgetary and structural reforms that we also seek must be negotiated with the other member states of the UN as well as with the governing councils of affiliated organizations. If we are to succeed in these negotiations, we will need the powerful leverage that will come from having in hand an authorized and appropriated funding to pay our arrears. This is where the advance appropriation we are seeking for fiscal year 1999 is so important to our reform efforts.

The broad reforms that we intend to pursue fall into five general categories: budgetary, personnel, oversight, management peacekeeping. We seek to eliminate functions that are no longer relevant, consolidate overlapping programs, and set priorities that are clear and achievable. We aim to set up or strengthen effective oversight systems in the major UN specialized agencies.

Specifically on the budgetary front, we seek to cut both overall UN costs and the U.S. share of those costs. Our goal is a reduction of five percent in the budgets of the major UN specialized agencies for the 1998-99 biennium, together with a ceiling of zero nominal growth in other UN budgets. We will also seek to trim the budgets of other international organizations not part of the UN system. In upcoming negotiations on the United Nations scale of assessments, our objective will be to lower the U.S. share of regular UN costs from 25% to something closer to 20%. At the same time, we would bring our UN assessment for peacekeeping down to the 25% mandated by Congress. We will work to ensure that any revised scale of assessments agreed in New York would also be adopted by the specialized organizations affiliated with the UN.

Our intent here, with the help of the Congress, is to reduce U.S. assessed contributions for FY 1999 and 2000 to international organizations currently funded by the CIO account to about the level actually approved by the Congress for fiscal years 1996 and 1997—about $900 million. This would represent a reduction of about ten percent in our current obligations to these organizations. Assuming the Congress would be willing to continue to appropriate funds at this level, the U.S. would not incur further arrears. We would thus have established a sound and sustainable basis for U.S. participation in a reformed and more effective UN.

The Administration has heard the message from the Congress. You want a UN system that is leaner and more efficient, that costs less, and that is responsive to U.S. interests in the international arena. So do we. This is the overall purpose of our reform effort.

But reform will not be an easy task. Crucial to the success of our efforts will be decisive action on our part to pay our current arrears to the UN and to prevent any future build-up. These arrears now total more than $1 billion, and if we are not able to reduce our assessments as planned and Congressional appropriations remain at the FY 1997 level, they will grow by some $100 million annually. Our influence and reputation have already suffered appreciably as a result of this heavy indebtedness; further erosion of our ability to lead is manifestly not in our interests. Our allies and friends are increasingly eager to work with us to bring about the reforms that we need; but without exception they insist that we must at the same time demonstrate that we will promptly pay our arrears.

Thanks in large part to the groundwork that we have carefully laid over the past few years, there is a momentum for reform throughout the UN system. The new Secretary General has voiced strong support for reform and has undertaken both to introduce managerial improvements in the Secretariat and to put forward proposals for wider reform for consideration by the member states. The current President of the General Assembly is likewise a firm supporter of reform. We need to move swiftly and decisively to take full advantage of this window of opportunity.

The coming nine months present a unique opportunity to achieve budgetary reform. During this period budgets for the 1998-1999 biennium will be set and the triennial review of the scale of assessments will be conducted. Decisions on several of these budgets will be made by June. We are fully committed to pursuing the targets for these negotiations which I have just outlined. But our ability to achieve them will depend substantially on our credibility regarding our arrears. Early approval of our FY 1997 supplemental request for an advance appropriation of $921 million, payable in FY 1999, to help clear these arrears will provide us the negotiating leverage we require during this critical period to achieve the reforms I've been

discussing with you today. We are asking the Congress to come together with the Administration to give a prompt and clear signal that the U.S. will pay its debts. If we can do this, we stand a good chance of success. But if we cannot, then we will have lost a valuable opportunity to secure the changes in the UN system that we both agree are necessary.

I would stress one other point: this proposal for the U.S. to get out of debt and stay out of debt depends not only on budgetary reforms and provision of funds to pay existing arrears but also. on full funding to cover our regular contributions for FY 1998. U.S. assessments for calendar year 1997—paid out of FY 1998 monies—are already set in the 1996-97 biennial budget. They cannot be changed in the budget negotiations we will undertake this year. Failure to fund these FY 1998 assessments fully would land us back in debt right away.

Mr. Chairman and members of the subcommittee, Secretary Albright has emphasized in recent statements the importance that the Administration attaches to moving forward with a better set of international organizations led by a strong and respected United States. But doing this, as she points out, requires us to put the issue of arrears behind us, for once and for all.

The Administration and the Congress share the goal of a reformed UN system that costs less and in which the U.S. continues to lead. We are prepared to work intensively with the leadership group established by the Majority Leader as well as with the relevant committees and subcommittees of Congress in order to reach agreement on the means to achieve this goal.

Thank you very much.

Senator GRAMS. Thank you very much, Mr. Lyman. I would like to just start out talking about the arrears, and of course the mandated U.N. reforms that Congress is looking for. Just to kind of go back a little bit, you know, the administration has frequently disagreed with some of the congressionally mandated withholdings of U.S. payments to the U.N. to gain leverage on the reforms that we have been seeking. However, we should look at the results.

Do you think that the U.N. and other member states would have agreed to set up an inspector general's office or adhered to a no growth budget for the 1996–1997 biennium without this type of pressure from the U.S.?

Ambassador LYMAN. I think there is no question, Mr. Chairman, that without extraordinary U.S. efforts and pressure this would not have been accomplished. I think that the U.S. has unquestionably been the leader in getting these reforms. No question about it.

On the other hand, there is also a negative side to it in that there is a very strong feeling, including among some of our allies in the reform process, that the United States tends to be unilateral about it, tends to legislate on commitments that need to be worked out in the context of the United Nations, such as on the scale of assessment. So it cuts a little both ways. But I have to tell you, Mr. Chairman, I agree, there is no question that without the strong pressure from the United States, and I mean both the Congress and the administration, we would not be where we are today.

Senator GRAMS. In fiscal year 1997 Congress did appropriate $50 million to begin repaying some of the peacekeeping arrears. However the payment was conditioned on at least two of the following three reforms being achieved. One would be the savings of at least $100 million in the expenses of certain U.N. divisions and activities. Two, a reduction of 10 percent in the number of U.N. staff. Or three, the adoption by the U.N. of a budget outline for the 1998–1999 biennium that was below the current no growth budget for 1996–1997. So although we are now almost halfway through the fiscal year 1997, the $50 million still has not been released, pre-

sumably, because the administration cannot certify that the above reforms have been achieved.

Ambassador Lyman, can you give us an update on the status of the certification that would be able to release the $50 million? What are some of the specific problems making the certification yet to this point?

Ambassador LYMAN. I am glad you raised that, Senator. We take these certifications very, very seriously, and we look at them with a great deal of attention, including all our lawyers. We have just sent up to the Congress our certification determination on the inspector general's office, which was also in the legislation. We wanted to be very, very careful in that case that we had indeed satisfied ourselves that the terms of the legislation were met.

I am very confident we are going to be able to meet the terms with regard to the $50 million, particularly the latter two of the three that you mentioned. As you know, we have been working very hard to get detailed figures on staffing, which we just got yesterday, and that is going to help us greatly on one of those. The budget outline has been submitted but we have to see the recosting of it to get the final costs of it. I am confident that we will be able to meet those criteria, but I want to be absolutely certain and on very solid ground before I recommend to the Secretary.

Senator GRAMS. In another area, on U.N. tax credit, kind of controversial, but in the State Department's budget request the administration is utilizing a U.N. tax credit of $27 million from the 1994–1995 biennium. Those dollars are being used to offset new U.S. contributions to the U.N. for fiscal year 1998. Now, that is kind of complicated for me anyway, but can you explain exactly how this U.N. tax credit, how the procedure works and why this credit is left over from the 1994–1995 biennium?

Ambassador LYMAN. Boy, I was afraid you would ask about that. That is one of the most complicated things in this whole business. In essence what the U.N. does is reimburse employees of countries who require their citizens to pay income taxes, because in general international employees do not. So what they do is estimate the amount that they would have to reimburse the American employees for their payment of income taxes, and put aside funding for that from our contribution.

What happened in this case is that after the fact they discovered that they set aside much too much money, and they have now said they have $27 million in excess. They wanted to apply that to our arrears. We said no, we would rather use it to reduce our assessment, and we want to deal with the arrears question in the way we have. So that is the way it works.

It is not a happy situation. We do not like this whole set-up. To change it we have to work with our Internal Revenue Service on a different way of doing it. We are engaged with them on that, and it is one of the things we hope to work on over the next year.

Senator GRAMS. Why not apply it to the arrears rather than future contributions?

Ambassador LYMAN. Well, because we thought in the first instance we would be able to reduce our request for this fiscal year and second, we wanted to deal with the arrears, as we said before, in the context of getting changes in the way we are financed across

the board in the U.N. as part of this overall package. We felt that it was best to not apply that to arrears, but to just reduce our requirements for this year. It could have gone either way, but we just felt this was better.

Senator GRAMS. In February of this year, two officials with the Rwandan war criminals tribunal were forced to resign after the U.N. office of Internal Oversight Services, the OIOS, found serious problems in the operation of their offices. Do you know what other actions have been taken to address the serious management and operational difficulties at the tribunal at all?

Ambassador LYMAN. Yes. They have put new people in charge there of those operations. Two senior officials have been dismissed. I think there are further actions being studied which have not been announced yet. I think that is a good example of why it was so important to get an independent inspector general function into the United Nations. I do not know what further steps, whether restitution or other things are being pursued, and I will try and get you that information.

[The following material was subsequently supplied for the hearing record by Ambassador Lyman.]

Upon the issuance of the report by the UN Office of Internal Oversight Services (0105), Secretary-General Kofi Annan stated that he is "committed to closing the gap identified by the 0105 and taking all required measures to streamline and strengthen the Secretariat's support to the Tribunal." The 0105 report made 26 recommendations for improving the functions of the ICTR. Certain of the recommendations, such as appointment of a new Registrar and a new Deputy Registrar, have already been completed. The report also recommended selection of a qualified Deputy Prosecutor, and we are aware that Chief Prosecutor Louise Arbour is close to making her selection to fill this key post. She is also visiting the region frequently and reviewing prosecution strategy.

Previously, no single Department of the UN Secretariat had been assigned to oversee the Tribunal's operations. The 0105 report recommended that the UN Department of Administration and Management be designated as the lead department in the UN Secretariat to support and monitor the Tribunal's operations.

The U.S. mission to the UN is having meetings with appropriate UN Officials to impress upon them that, in addition to implementing other 0105 recommendations, the Department of Administration and Management must carry out this responsibility completely, intensively, and on a sustained basis.

The OIOS has committed to conduct a follow-up review in the areas where serious problems were noted. This review is scheduled to take place in the second quarter of 1997.

Senator GRAMS. But right now do you feel the U.S., or maybe the U.N. are confident that the Rwandan tribunal is now competent to deal with the crimes that it is investigating?

Ambassador LYMAN. I think so, and at least we have put an end to what was going on before and we have got better people out there to do these functions. You know, it comes at a very sensitive time because the trials are beginning, and they are very important trials of people accused of genocide. So it came at a terrible time. They work under very difficult conditions in Arusma They work under much more difficult conditions physically than in The Hague. But I think the Secretary General has acted very quickly. He wants to put this on a very sound basis.

I will get you updated information as we get it on what is being done.

Senator GRAMS. Thank you very much, Mr. Lyman. Senator Feinstein.

Senator FEINSTEIN. Thank you very much, Mr. Chairman.

I am glad you mentioned Rwanda and the war crimes tribunals. I have had real concern, Mr. Lyman, for some time, particularly with respect to Bosnia. I gather in Bosnia there have been some 75 people who are wanted for prosecution in The Hague for war crimes, and I cannot remember the exact figure, like 5 or 6 delivered.

To those of us that happen to be women, and I have discussed this with women of both political parties in the Senate, I think it is fair to say that we feel very strongly that these people should be brought to justice. This is the first, well, not the first time, but a major instance where rape was used as an instrument of war, and to let people get away with this I find is most obnoxious and unacceptable.

I notice this small amount in the budget of $6.2 million for Bosnia and $6.2 for Rwanda. How exactly is this money used? Where does the money come from for the exhuming of graves? Many of us would like to see the situation in Srebrenica, where there are still some 6,000 or 7,000 people missing, resolved. Could you explain how this part of that budget works, and how we can have some confidence that these war crimes criminals are going to be brought to justice, and that these graves are going to get exhumed?

Ambassador LYMAN. Well, on the funding, the tribunals are funded in an unusual way. They are funded half through the peacekeeping assessment and half out of the regular U.N. budget. It just happens to be the way in which the tribunals got started. We fully fund our share in both cases, both through the regular budget and through the peacekeeping. Funding is not a major problem for the tribunal. I might add that we have seconded expert staff to the tribunal.

Senator FEINSTEIN. So what you are saying is there is adequate money.

Ambassador LYMAN. There is adequate money. The problem is more in access and, of course most of all, the cooperation of the parties in turning over those who are indicted.

This is of major concern to us. Cooperation with the tribunal was written into the Dayton Accords. It continues to be a major concern on our part. I know the administration is giving a lot of thought to how to have this more fully implemented.

I might say, you point out something very, very important. I discussed this question with Justice Goldstone, who was the first prosecutor and whom I had known in South Africa, and he felt too that it was extremely important that the tribunal had identified and made this kind of terrible rape a war crime. That had never been done before; now that the tribunal has so designated it people can be indicted on that basis and brought to justice.

There is a lot of thought and work going on, which I can have briefed to you, on what we believe can be done to get the war crimes aspects of Dayton fully implemented. But it is not a funding problem. It is much more a political problem.

Senator FEINSTEIN. This is just my feelings, Mr. Chairman, but I am going to express them not being terribly reserved. In some way aid development help really ought to be conditioned on the turning over of war crimes criminals. If we cannot do it in this sit-

uation, think of what the future could portend. The atrocities that were committed, I mean, I really thought that the whole world learned from World War II. If anything, what this war points out is that the world did not learn at all. I think what some of the situations in African countries point out is that the world did not really learn at all. So I think those of us that really believe that there has to be some morality, some responsibility for that morality in the world, this becomes a very important focus. I really want to stress that.

Ambassador LYMAN. Senator, you are absolutely right. Not only is it a moral necessity, but there is no way to end this kind of enmity and conflict if there is not some justice. If people do not feel, for example in Rwanda or in Bosnia, that there is culpability and justice, then what will happen is a thirst for revenge will fester and fester and manifest itself in a worse way. So it is not only a moral necessity, which it is, but it is also necessary to take this kind of a conflict out of the revenge-counter revenge cycle, and get at it into a way that people do not continue to carry out this kind of thing.

Senator FEINSTEIN. Are we pushing for more exhumation of graves?

Ambassador LYMAN. I will have to get an answer from our people who work directly on Bosnia on that, but I will get you an answer on that.

Senator FEINSTEIN. I would appreciate it if you would.

[The following material was subsequently supplied for the hearing record by Ambassador Lyman.]

Under the auspices of the Office of the High Representative (OHR), the Bosnian parties have agreed on an exhumations program which will commence in a few weeks. The U.S. Government is supporting the program by providing demining assistance. We see exhumations as a confidence-building measure among the parties.

Senator FEINSTEIN. There is one other area that I wanted to ask you about, and it has to do with Afghanistan. I have watched this, and it is just one horror story after another. I believe that since 1979 more than a million of Afghanistan's 16 million inhabitants have been killed, and millions more have become refugees. Kabul has virtually been obliterated by factional fighting, with over 45,000 civilians killed, almost every prominent building is either destroyed or damaged.

Now, with the ascendancy of the Taliban, Afghanistan really is going through a new conflict. Some say it is true Islam, others say it is rampant abuse of human rights, with the women of Afghanistan really becoming the latest victims. Could you provide us with more detail on exactly the contours of a United Nations led peacekeeping mission in Afghanistan? What it might look like, what sort of plans are being used to provide you with the means to estimate the costs of the operation? Beyond the $15 million requested in this budget, would there be any additional U.S. obligations or involvement?

Ambassador LYMAN. Senator, I share your horror at what has been happening in Afghanistan over these many years. We put in a budgetary request for Afghanistan on the hope and possibility that the conditions would be right some time during the coming year for the U.N. to play a peacekeeping role. But one thing we

have learned painfully over the last few years is the only time a U.N. peacekeeping force or presence is effective is where the parties have come to an agreement that they want peace, and where the U.N. is therefore an effective bolster to that process, and there is a political process going on to resolve the issues.

Those conditions do not exist today in Afghanistan, and without them, putting in a U.N. peacekeeping would be like the terrible things we saw in Bosnia when the U.N. went in when there was no peace. But there is a U.N. envoy and there are lots of other efforts going on trying to get to that point, either because the parties get exhausted from fighting or because they realize there is no military solution or because moderates who feel that enough is enough decide that it is time to have a process and to stop the fighting. At that point we hope the U.N. can indeed play a role.

We have done very rough estimates here, and they are not based on any detailed planning from the United Nations, because we are not at the point where we have the conditions to say OK, here is what the parties are ready to do, here is the kind of peace process they are willing to engage in, and here is what the U.N. specifically has to do, whether it is to observe, whether it is to walk a line, et cetera. Until we get to that kind of a point, I am afraid we do not have those details. But as soon as we think that is possible we will start consulting with the Congress on it. For now, the efforts are overwhelmingly on the diplomatic side to bring about those conditions.

Senator GRAMS. Thank you, Mr. Lyman. We will move onto another round of questions here while the Senator gets a drink. Duplication among some of the international organizations is what I would like to focus on, and to refer back to the fiscal 1998 budget, the State Department is requesting contributions of $50 million for the Pan American Health Organization, which is an inter-American organization, and then another $107 million for the World Health Organization, which is a U.N. specialized agency.

Can you explain the relationship between these two organizations in the funding requests?

Ambassador LYMAN. The Pan American Health Organization precedes the U.N. it was created earlier and was in existence when WHO was created. The agreement was that the Pan American Health Organization, in addition to its original role, would also serve as the regional arm of WHO. But when the Pan American Health Organization puts together its budget, it does so based on the contributions that come through the inter-American system and a contribution from WHO, and presents a single budget to the board. So we are able to look at that budget in terms of what we contribute to each organization.

PAHO has been very well run. I have to say much better run than WHO is right now. It has been doing some very fine things in the Americas. There is a worldwide campaign, as you know, to stamp out polio. Already the transmission has been stopped in the Americas. No measles cases have come into the United States in the last year from other parts of the Americas. So it is a good operation.

But there too we are going to call for some budget reductions.

Senator GRAMS. Has there been any concern by the U.S. of any overlaps of the two organizations? And if so what has been done, are efforts made there?

Ambassador LYMAN. We do it by looking at the total budget which incorporates both the contributions to the inter-American system and the WHO, so that in effect anything that is carried out in the Americas from WHO is really carried out through PAHO. They are the arm. So by looking at the PAHO budget, examining it, seeing what it is doing, we get a handle on what WHO does in the region.

As I said, their budget is more transparent than the WHO central budget. They are better managed. And therefore we have a better understanding of where there is duplication or overlap or just not lack of prioritization. We have lots of problems with WHO on this.

Senator GRAMS. I guess the obvious question would be why are they not just merged, consolidated?

Ambassador LYMAN. Well, in effect they are because PAHO is the entity.

Senator GRAMS. But with separate budgets.

Ambassador LYMAN. They get a contribution from the central budget, but the larger part of their budget comes through the inter-American process.

Senator GRAMS. Are there any other reforms that the U.S. is looking at as far as PAHO goes that you would like to highlight or talk about?

Ambassador LYMAN. I think in PAHO and in WHO in general we are arguing for much more prioritization. In health you can look at almost everything, and we are saying, you know, there are some things that PAHO and WHO do not have to look at. Therefore we think by focussing on the most prominent disease threats PAHO could reduce its staff somewhat, reduce some of its studies and concentrate on things like measles, like polio, et cetera, and in their strengthening country capacities to carry out these programs. That is why—with that and some management improvements—we are calling for a 5 percent reduction in their budget.

Senator GRAMS. Other international organizations in the question of duplication, again I will go back to the fiscal 1998 budget which requests contributions of $17 million for what is called the Inter-American Institute for Cooperation on Agriculture, and $81 million for the Food and Agricultural Organization, which you highlighted, the FAO. Again, one is an inter-American organization and one is a U.N. specialized organization, both having the same goals.

Could you explain again the relationship between the two, and if there are any U.S. concerns over the overlap of responsibilities or services?

Ambassador LYMAN. Where the overlap comes is in a problem we have with some of the specialized agencies. In other words, we think an organization like FAO ought to concentrate on establishing norms, setting standards, providing a scientific and professional basis for trade and agriculture for problems of food security, et cetera, and should be less of an operational, technical assistance agency. FAO, because most of its members are developing country

members, is under pressure to do a lot of technical assistance as well as these other things, and that is one of our problems in the FAO because then it ends up duplicating UNDP or the World Bank or the Inter-American Development Bank.

The IICA in our view can focus best on issues particularly in the Americas of producing better trade in agriculture, better development of seeds and testing, and things that facilitate growth of agricultural trade and development in the Americas. It is a very country-specific and region-specific organization.

There are problems of overlap, and it is part of the reform we are pushing in this organization and in FAO exactly along the lines you have suggested.

Senator GRAMS. Again, the question is why not consolidation, where both sides could work for a mutual goal, still having their specialties but under one set of administration, so to speak, and be able to downsize?

Ambassador LYMAN. I think some of the Latin American countries would probably prefer to have FAO consolidated in IICA than the other way around. Your point is very well taken, and we will pursue that further, Mr. Chairman.

Senator GRAMS. Going back to the World Health Organization, I had another question I would like to ask on that. Again, a February 1997 GAO report indicated that WHO trails other agencies in management and budgetary reforms. I think you have kind of alluded to maybe not as good as PAHO. But according to the report the U.S. and others have urged the organization to eliminate non-priority programs to bring the budget in line with available resources. Instead of eliminating non-priority activities to meet shortfalls caused by late or non-payment of regular budget assessments in 1995, WHO froze 10 percent of the budget program. In addition GAO reports that from 1991 to 1995 the number of senior level promotions given by WHO's director general have increased. Senior level ungraded posts increased by 23 percent, and also other senior level graded posts increased by 16 percent.

So, should the U.S. pay its arrears to WHO if reforms to correct these kinds of problems are not implemented?

Ambassador LYMAN. Mr. Chairman, as I mentioned before, we have serious, serious management problems at WHO, and we feel very strongly, and we make no secret of it, that it needs new leadership. Some of the reforms—most of the reforms—probably are not going to be implemented until we get new leadership. Here is one of the most distinguished, and should be one of the most revered organizations in the international system, with a history of achievement and importance, but quite frankly the very things you have mentioned have bothered us.

We are not getting the shifting of resources into the priority programs. We are not getting the staffing transparency that we want or the allocation of staff that we want.

What some other donors have done, because they feel differently than we do about assessed contributions—they do not feel that they can withhold those under treaty provisions—but some of the other donors cut back their voluntary contributions. For example, a year ago Denmark, which is a major contributor in foreign aid, cut its voluntary contributions to WHO by 50 percent in order to get cer-

tain reforms. One of the other Scandinavian countries did the same. And they got the reforms in those programs they were working on. We have talked to them about this question and they said well, they do not believe in doing that with assessed contributions but they agree with us on WHO reform.

With an eye to the general assembly of WHO, the World Health Assembly in May, we have already started demanding not only budget reductions but a much more transparent budget. We are going to keep fighting for that. There is a lot of resistance for a lot of reasons, but I think we are building up support. Quite frankly, I think we need new leadership to get the full range of reforms we want.

Senator GRAMS. Some of the concern has been we are facing these budget restraints and the reforms have not been coming. Full funding of WHO, how would that lead to reform?

Ambassador LYMAN. WHO has done something we do not like, and we have raised this throughout the U.N. system. When they have shortfalls they borrow internally, including from their own pension fund. It is not a way to deal with financing. It is not a way to deal with budget transparency, and that is another complaint we have had and one of the reasons we have argued for a different approach to the budgeting in WHO.

Senator GRAMS. The U.S. has completely withdrawn from some agencies. An example is the United Nations Industrial Development Organization. We withdrew at the end of 1996. Could you explain the reasons for the U.S. withdrawal from this organization?

Ambassador LYMAN. We have a lot of problems with UNIDO for two basic reasons. One, we did not think it was terribly well managed, and second, we did not think it deserved to continue to operate as a separate entity.

One of the things I think we have all learned is that when it comes to industrial development, the private sector plays the major role and should play the major role. Where assistance can be useful is in developing the laws, the framework, et cetera, to allow private investment to flourish. And there are other aspects of training, et cetera, that could be valuable.

We did not think UNIDO was therefore playing a role that justified this kind of assistance and we withdrew because we were not getting the changes we wanted. Other donors to UNIDO feel very much the same way. They are debating now a number of things, either reform of the entity or its being folded into another organization. Some people want to fold it into UNCTAD so it is strictly related to policy and training; others want to fold it into UNDP for technical assistance purposes. We are not party to that discussion anymore because we are not there.

The treaty required that we pay the following year's dues when we withdrew. We have not done so. Congress has not permitted us to do so. But even if you abolish the organization, some of the other donors pointed out, you have got to fund out the pension plan; and if the U. S. does not make its last contribution we all get stuck with it. So we do owe that money, but I think there is a lot of feeling that UNIDO is not carrying out a function of the kind that was originally intended and which is as relevant today.

Senator GRAMS. I think you have half answered my follow up on that. The administration is asking, I believe it is for $68 million to fund an organization that we have pulled out of. Again, why should we fund this? But maybe you can elaborate on that.

Ambassador LYMAN. The agreement governing UNIDO, to which we were a party—and this is true of most of the U.N. organizations—says that if you withdraw from the organization it takes effect at a certain date but you are obligated to pay that and the following year's dues. So we owed them the following year's dues and there was a shortfall from the previous year, and that is what adds up to this. So by the agreement we entered into when we joined UNIDO we are obligated to pay those funds even though we withdrew. Congress put a prohibition on doing so last year, but we feel that we should come back because we will not get that wiped off the books as arrears because it is clearly part of the obligation when we joined.

Senator GRAMS. So even if the organization was disbanded, the obligations would still be there in some respects?

Ambassador LYMAN. The obligations would still be there, and as I mentioned, some of the people I have talked to who are thinking of abolishing it are worried about how one takes care of things like pension funds, et cetera.

Senator GRAMS. In addition to that organization, UNIDO, the U.S. also withdrew from the Pan American Railway Congress Association and the World Tourism Organization. Again, can you outline the reasons for the U.S. decisions to withdraw from these organizations?

Ambassador LYMAN. Well, we took a look at all the international organizations to which we belong—and you made a very good comment in your opening remarks about the number of such organizations of which we are members. We did two things: We prioritized them, and then we looked at ones that really did not serve American interests enough to be worthwhile. We did not think either of those organizations served significant enough interests to stay in them.

Tourism issues can be taken care of much better in other forums, and frankly I do not think anybody is going to miss our participation in the railway commission.

We looked at the other smaller organizations that deal with highly specialized parts of our economy or trade or law. In those areas they are very, very important, but we needed to prioritize them since last year Congress's appropriation was $85 million short of our total assessments. So we took the priorities and we said OK, there are certain organizations for which we will make no cuts, like NATO, et cetera. Then there are others which are of very special importance to the United States because they touch a lot of Americans in a very significant way or they are very close to our region, like OAS, OECD—we will cut them a little. And then for the other organizations we will hold back even more. Now, we buildup arrears in doing that, but we took the largest percentage cuts in the category that we felt had very specialized but not very broad scale interest.

We are continuing to look at this list, and have to continue to evaluate whether we should stay in each and every one of the orga-

nizations. For each one there is a constituency, but we have to decide whether that is a significant enough interest for the United States, for taxpayers' funding.

Senator GRAMS. So in other words of all the organizations we still are members of, this prioritization is going on and assessment is being made on whether we are going to remain or maybe the possibility of withdrawing from some others?

Ambassador LYMAN. You are exactly right.

Senator GRAMS. Outside of the U.N. system the largest amount of funding for arrears that the administration has requested is a line of $24 million for OAS, the Organization of American States, an inter-American body. Since the U.S. already pays for almost 60 percent of the OAS budget, the sum of which I guess totals $53 million in fiscal year 1998, how can the arrears really affect our influence within that organization?

Ambassador LYMAN. Well, I think we are, as you point out, paying close to 60 percent. We obviously play a major role. What happens when you fall into arrears is you do not immediately lose influence in that sense. You do create some resentment because people feel it is an obligation and they worry that we are setting a precedent that individual countries can decide yes or no, whether, when, where they want to pay their obligations. We remain a major player in the OAS. I think the issue about arrears in this case is more that this organization is important and it does good work, and that when we fall into arrears there are some things that the OAS is just not going to be able to do.

OAS has really come a long way in being an important force for democracy and human rights in Latin America in a way that just was not true 10 or 15 years ago. It has played a very important role in preventing reversals of democracy in places like Paraguay or Haiti or Peru. Now it is focussing more on the agenda of the Summit of the Americas to produce more trade, more economic development, more markets. So the real problem with the arrears is just reducing the amount that the OAS can do. I cannot say honestly that at this point it is curbing our influence.

Senator GRAMS. When we talk about assessments versus voluntary participation, and again I will go back, we have 49 international organizations for which the President is requesting assessed contributions. The U.S. participates in dozens of international organizations programs that it funds on a voluntary basis. Last year, just to throw some figures out, those voluntary contributions totaled $267 million, which the U.S. thought was important to be a part of, to support and to help, and that included donations to such programs as UNICEF, the U.N. High Commissioner for Refugees, et cetera. As you know, your predecessor, Mr. Bolton, had recommended that the U.S. consider moving to a more voluntary agreement for many of the organizations to which we currently must make those assessed contributions.

I guess the question would be if we went to more of a voluntary system would it create more of a free market type of an attitude in which contributions were directly linked to the performance of the organization? In other words, try and get them to respond to the most important part, and that is to donations. So would it help,

would it be a good idea to increase this and be more accountable to the taxpayers, again looking for the results from these agencies?

Ambassador LYMAN. Well, the assessed contributions are for the maintenance of an organization in general, which does not necessarily cover assistance programs for example, but does include, like in WHO's case or FAO's case, setting norms, standards, et cetera. These functions require a constant infrastructure of expertise. There is a very strong feeling within the U.N. that you need a base of assessed contributions to maintain that structure.

On the other hand, we have taken the position that in major assistance programs, whether humanitarian or development, we want to do those on a voluntary basis. So UNDP, UNICEF, et cetera, are done by agreement on a voluntary basis. That is the distinction we have made, giving our country and others the right to judge whether a particular assistance program is a good one, is in our interest, and is well run.

But if you applied that approach to many of these organizations, their very future would be uncertain. The ability to keep a certain minimum staff, to maintain a basic set of ongoing operations would always be subject to up and down fluctuations. I think we would get tremendous resistance from the other countries if we tried to move many of these particular organizations in that direction.

Many other countries prefer the assessed system anyway. But I think it is more because of the need for a certain base infrastructure that has to be predictable.

Senator GRAMS. Would it not mean that the well run and the well producing agencies would always get the funding, and that would be the incentive?

Ambassador LYMAN. That is true, but it may be essential to keep going even one that is not running as well as you want. I mentioned how some of the other donors have handled the WHO problem, for example. They cut the voluntary side but not their assessed contributions to WHO, and it had some impact. In fact WHO's voluntary programs are larger than their assessed programs, because other donors like us make a distinction between that basic infrastructure, which is to set norms, standards, et cetera, and carrying out assistance programs overseas on which donors should make individual decisions.

Because you enter into an agreement at the beginning to provide a certain base contribution on a regular basis, that is the way almost all of these organizations are set up. I think we would get very great resistance trying to change that.

Senator GRAMS. One of the biggest areas of concern of course has been peacekeeping contributions. Many Senators will note that the President's request for U.S. contributions to international peacekeeping activities has gone down to $240 million, and I think that is from $304 million in fiscal 1997, excluding the proposed arrearage payments. Moreover, this is significantly less than the U.S. contribution of over $1 billion as recently as back in fiscal year 1994. As you know, the U.S. unilaterally lowered the U.N. peacekeeping assessments from 35 to 21 percent, and that was done in 1994. The law passed, then by a Democratic controlled Congress, and was signed into law by President Clinton.

The question is, Ambassador Lyman, do you think this action by the U.S. has caused the U.N. and also some of its member states to think more carefully about what peacekeeping operations they initiate, and then to calculate and to try and determine how much they are going to cost in advance? So again, has this not been a move to try to reign in some of these budgetary questions?

Ambassador LYMAN. I think, Senator, that what has motivated the U.N. the most to reevaluate peacekeeping operations much more carefully were the failures in Bosnia and Somalia and Rwanda. There was recognition that all of the members were attempting to put peacekeeping operations in place of political settlement, if you will, to try to put in peacekeeping where there was no peace. Out of that came a very extensive internal study in the United States, and most of the principles that came out of that study have now been adopted by the Security Council itself and its peacekeeping office—principles such as looking very, very carefully at the mission, its appropriateness, its size, and its cost before you commit. I think that sobering experience has had more to do with it, frankly, than the change in our contribution.

What has caused a problem from the contribution side—not so much the reduction to 25 percent as the general arrears—is that peacekeeping nations are not being paid. This creates a problem in recruiting peacekeeping nations in the future.

I think we all learned a lesson, and I think the consultation process that Congress has called upon us to do and which we have been carrying out has been very helpful to us. It gives us the chance to discuss peacekeeping operations—we meet, as you know, with the staffs once a month for a review—and then we formally notify Congress in advance of any new or expanded peacekeeping mission. I think it has given us all a chance to look much, much more carefully at these operations.

Senator GRAMS. Just a couple of quick questions before we adjourn, one dealing with Haiti and another with Africa. On Haiti, the administration is required by statute to brief the Foreign Relations Committee monthly on U.N. peacekeeping missions around the world, and during the December 1996 briefing of the committee the State Department officials informed the committee that the Security Council had renewed the U.N. special mission in Haiti, but it also added that the council did decide this would be the final extension of the Haiti mission, so this operation would end no later than July 1997.

The President has not requested any fiscal 1998 funds for peacekeeping in Haiti, yet during the March 1997 peacekeeping brief the administration did inform the committee that consultations currently are underway to create a third mission for Haiti, so that would thereby extend the U.N. presence there.

Ambassador Lyman, does the President's fiscal year 1998 budget request accurately reflect the administration's current consultations at the U.N.? And how does the administration, how would it intend to pay for any follow up mission in this regard?

Ambassador LYMAN. It is a very good question, Senator. This is a difficulty in so many of these peacekeeping operations. You always have to look at the situation on the ground and make sure not only that you have examined the appropriateness to start with,

but that the exit strategy is right in terms of the objectives. In the case of Haiti we had a lot of opposition from some members of the Security Council to continuing the operation at all, and the agreement was to make it final. But there is a feeling that some kind of international presence, although not the same structure, is going to be needed when this present operation ends.

What the form of that will be is still very unclear within the U.N. and in our own discussions. If there is a follow on, and if it is under U.N. auspices, there are two ways it might be financed. It might be financed still in fiscal 1997 because the bills might come in then, or we might have to come to you with a revision of those estimates in 1998, within the overall total though, and say look, now we think we need to reprogram to cover it.

But no decision has been made on that yet. I know that there have been a lot of discussions, there are still more visits going on down to Haiti. We will be keeping very closely in touch with you on what, if any, U.N. presence is going to follow the July 31 deadline.

Senator GRAMS. So the administration is not committed then to an exit date yet out of Haiti?

Ambassador LYMAN. We have not made a final decision on what kind of international presence is appropriate after this particular presence reaches the July 31 date. A lot of focus is on the police side; that is where a lot of the attention is being put.

Senator GRAMS. On the police?

Ambassador LYMAN. On the police.

Senator GRAMS. Also, in dealing with the Africa issue, in the fiscal 1998 budget for peacekeeping the President is requesting $50 million for an African crisis fund. As you know, the administration created this fund I think last year. It was appropriated $20 million for peacekeeping efforts in the great lakes region of Africa, particularly again Rwanda and Burundi. Ambassador Lyman, the Budget in Brief for fiscal year 1998 indicates that the money will be used for large scale peacekeeping efforts in the great lakes region. Does the administration support sending a large scale mission to the region, and if so, what kind of conditions would have to exist for the U.S. to support such a mission by the Security Council?

Ambassador LYMAN. I am sorry we used that term.

Senator GRAMS. Which term?

Ambassador LYMAN. Large scale. First of all, I think the Congress was tremendously responsive in putting in the $20 million in 1997. It was an extraordinary act by the Congress. We were faced at that time with what we thought might be an immediate and impending crisis in the Great Lakes region which would require a peacekeeping effort. That has not developed yet, and we have not drawn on those funds yet, but that situation remains so delicate and explosive in Burundi in particular. Now we have this whole new situation in Zaire.

Quite frankly, Senator, we have been looking very hard at this issue. There are very different opinions in the international arena about how the U.N. might play a role in this. We continue to feel, as we do in general, that you do not structure an operation in that area of that kind unless you have some framework, some political framework and some process of cease-fire and political movement.

You cannot just put a peacekeeping operation in the middle of a civil war.

We are very concerned about the humanitarian circumstances. We are working very closely with UNHCR to see if they can get to those refugees without the need for a force to do it.

When you look at Zaire and you look at the size of that territory, I think we feel very strongly you cannot just assume that you can put in enough forces to monitor the whole country. So what we are looking at is first of all the political process, to get stabilization of that situation politically, so that the sides are ready to talk about peace and about a political process, in which the United Nations, beyond its diplomatic efforts, can play a role. Then we would look very, very carefully at the most practical way in which the U.N. and/or others could reinforce that process; but we would not be looking at it in a massive, large scale way. We do not think that makes a lot of sense at all.

It is too early to give you details, because we do not really have them. That is why I said I am sorry about that term, large scale. The shape of this is still yet to be seen, and we have to think of not only the Zaire case but the still very dangerous situation in Burundi. But we do not have specifics, we are not ready to even agree that a force should be put there, and we just have to stay very, very closely in touch with you on a regular basis.

Senator GRAMS. If no money has been drawn on the account yet, the $20 million, and another $50 million being requested, is this going to be used as some kind of a slush fund for activities in Africa like Angola, et cetera? You mentioned Zaire.

Ambassador LYMAN. No reprogramming nor other use of that fund will be made without consultation with Congress. That is clear and certain on our part. This year we may still have some use for that fund. There is an operation possible in Sierra Leone, but again the conditions are not yet right. But most likely of all, we could have the conditions for doing something in the Great Lakes region before this fiscal year is out.

I am glad we have not spent the $20 million without the right conditions, quite frankly. We will not use it as a slush fund. We will come to you whenever we think the conditions are right for spending that in an appropriate way.

Senator GRAMS. One final question, I would just like to know how long did it take to learn all the acronyms for all these programs, and do you have them all down pat now? You have done a good job.

Ambassador LYMAN. I am glad you did not quiz me on it. It has taken a long time.

Senator GRAMS. You have done a great job on it. Thank you.

Finally, I just want to ask unanimous consent that this hearing's record be kept open again for 3 business days, and that is to allow for any further questions by any member of the Foreign Relations Committee or this subcommittee to submit to you in writing any questions. Again, Mr. Lyman, I do not believe these written questions will be unreasonable. In view of the fact that the Foreign Relations Committee is again preparing the State Department Authorization Bill. Again I would just ask you, can you assure me

that you will do your best to have them back within a week of receiving these?

Ambassador LYMAN. We will do so, Mr. Chairman.

Senator GRAMS. Thank you very much again, Mr. Lyman. Thank you for your time today. I want to thank you for all of your answers.

Ambassador LYMAN. Thank you.

Senator GRAMS. The committee stands adjourned.

[Whereupon, at 12:44 p.m., the hearing was adjourned, to reconvene at 10:05 a.m., April 9, 1997.]

MULTILATERAL DEVELOPMENT BANK FUNDING REQUEST FOR FISCAL YEAR 1998

WEDNESDAY, APRIL 9, 1997

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, EXPORT AND TRADE PROMOTION,
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room SD–419, Dirksen Senate Office Building, Hon. Chuck Hagel, (chairman of the subcommittee), presiding.

Present: Senators Hagel and Sarbanes.

Senator HAGEL. The committee will come to order.

Today the subcommittee meets to receive testimony in support of the President's Fiscal Year 1998 budget request for multilateral development banks.

We are pleased to have with us the Deputy Secretary of the Treasury, Hon. Larry Summers.

Secretary Summers, welcome. It is nice to have you.

The President's 1998 request for the multilateral banks totals $1.5 billion. This amounts to $583 million more than Congress appropriated for Fiscal Year 1997, and $143 million more than the President's Fiscal Year 1997 request.

Secretary Summers, you and I had an opportunity to meet in my office a little earlier this morning and I appreciated that opportunity because we were able to talk a little bit about your assignment and what we hope to accomplish this morning.

This is a challenging time for you, for all of us, as we prioritize resources. And I really do, as I said in the meeting this morning, look forward to understanding in more detail, as I am sure that the committee does, what your thoughts are, as well as the Secretary's, as to what we want to do and what we want to accomplish as we go forward into the next fiscal year.

Most Americans and many Members of Congress do not accept the notion that the foreign aid budget must be increased at a time when our Nation is $5.4 trillion in debt and is running an almost $200 billion annual deficit.

I appreciate that this administration has negotiated new replenishments with various multilateral institutions and I suspect my colleagues are grateful for that as well. These replenishments are 40 percent lower than in previous years, as we discussed. But the President's budget will face a bumpy road ahead. Given our Nation's enormous debt and deficit and given that the World Bank has just celebrated its 50th anniversary, it seems to me, and I sus-

pect to many of my colleagues, that we must reassess our Nation's role in these institutions to determine if they are worthy of U.S. support into the next century.

Again, we were able to talk a little bit about that this morning. As I said to you, Mr. Secretary, I certainly did not come to the U.S. Senate to defend the status quo. Let's look at all our programs, all our resources. Let's prioritize them, let's sort out what works and what does not work. I think along with that we will, and should, develop some confidence in the American public and within the American public, which is, after all, the taxpayer and the bill payer for all of this. We want them with us as we go forward and use this money in efficient and effective ways.

The United States should participate in multilateral lending institutions — the World Bank, IDA, and the other regional banks — only if they can demonstrate tangible, positive effects on the lives of Americans and only if we have the ability to stop loans which run counter to U.S. economic and security goals.

The first question we should ask is do these banks further U.S. national interests and bring stability, democracy, and respect for human rights to the developing world. Often they do not. Many times they do. Let me cite a few examples. I cite these, Mr. Secretary, for the record. You have been up here many times and you know the drill around here. We do things for the record. Then we can get into some serious dialog.

Syria, black listed by the State Department for its support for international terrorism, received $660 million from the World Bank. Mauritania received $20 million from IDA in 1996. Meanwhile, the State Department's 1996 human rights report states, and I quote: "Mauritanians continue to suffer the effects of slavery, many years and generations of slavery." The people of Somalia and Liberia have watched while their countries' economies collapsed despite $760 million from IDA. And, of course, the Government of China, which has received 173 loans from the IBRD and IDA worth more than $25 billion, as we know, is no champion of democracy or basic human rights and we should take a careful look in that direction.

Second, we must ask ourselves do the multilateral banks promote economic growth. Let me again cite for the record some examples. According to the Heritage Foundation, of the 66 developing countries which have received World Bank loans for the past 25 years, 37 are no better off today economically than they were prior to receiving World Bank loans.

The Ivory Coast, which received more World Bank aid than any other African nation in 1996, has seen its Gross Domestic Product fall 18 percent since first receiving World Bank aid in 1968. Between 1965 and 1995, Nicaragua received $637 million in World Bank aid. Meanwhile, its GDP has plummeted by 50 percent during the same period.

Perhaps as we consider these examples, we will see that some are exceptions rather than the rule for these institutions and I am well aware of that. But in any event, literally billions and billions of American taxpayers' dollars have been misspent over the years in pursuit of policies at these institutions that are fundamentally inconsistent with American interests.

If these organizations claims that they are worthy of continued United States taxpayer support, they are going to have to change the way they have traditionally done business in some respects.

Again, Mr. Secretary, as you and I discussed earlier, I think we all agree that we want to pursue that and that is in the interest of all of quite. Quite frankly, it is in the interest of the recipient nations as well and the people of those nations.

I look forward to your testimony and I would now like to say that the ranking minority member, my distinguished colleague from Maryland, Senator Sarbanes, I think is engaged in another hearing where I should be. But you take precedence, Mr. Secretary, so I am going to leave the housing issues of America at this time to Senator Sarbanes and trust that his able leadership will see us through this morning. And if he trusts me to get started, which I understand he does, we will move forward, sir. I am very, very pleased now to ask you for your comments.

STATEMENT OF HON. LAWRENCE H. SUMMERS, DEPUTY SECRETARY OF THE TREASURY

Mr. SUMMERS. Thank you very much, Mr. Chairman. I am grateful to the close attention that you have paid to a set of issues that I think are profoundly important to the future of our country.

In many ways, the most important foreign policy challenge we face, as the post World War II generation faced the challenge of containing communism, is addressing the tremendous change that is taking place in the developing world where five-sixths of humanity lives and where almost all of the world's future population growth is going to come.

Differences across the developing world are seismic, with more than 2 billion people living in countries where standards of living double within a decade but with hundreds of millions of other people living in countries that are poorer today than they were 20 years ago.

Prospects for the United States remaining secure depend critically on what happens in the developing world and so, too, the capacity of the United States to remain prosperous. Nearly 42 percent of our exports, nearly $350 billion last year, went to developing countries. Our exports to the developing countries of Asia exceed our exports to Japan.

I believe that the international financial institutions are a central tool of U.S. policy addressing change in the developing world. That is why I welcome this opportunity to discuss them today.

I believe that these are extraordinarily cost effective tools of policy in the sense that they lever U.S. resources in an extremely efficient way. They lever U.S. resources because our contributions are pooled with the resources of other countries, and they lever U.S. resources because, by virtue of providing loans to other countries rather than grants, we get something back.

Indeed, the leverage is so profound that the $1.2 billion of scheduled payments from the United States to the multilateral development banks give us a profound influence over some $46 billion of annual development lending that they undertake each year. This is far more than we can afford to do bilaterally.

By far, the multilateral development banks are the world's largest supporters of AIDS programs, child survival programs, girls' education programs, clean water, and other essential investments in basic poverty reduction. They are also a principal tool that we have in seeking to bring about trade liberalization.

Indeed, it is worth remembering that a large fraction of the trade liberalization that has taken place in the developing world has taken place in the context of adjustment programs supported by the multilateral development banks. Mexico's tariffs came down from 30 percent and more to 10 percent in the context of a World Bank structural adjustment program prior to discussions on NAFTA beginning. India's tariffs were brought down very dramatically in the context of an IMF/World Bank program in 1991, following their financial crisis. These kinds of examples can be multiplied.

The international financial institutions also have a crucial role in advancing our security interests by supporting reconstruction in places like Bosnia where the World Bank is coordinating donor funds, in Russia where the IMF has played a crucial role in encouraging a process that, while still incomplete, has produced a sea change in the value of the Russian currency and a very important disinflation.

In Africa, where the international financial institutions have struggled, there are some important results. Uganda and Mozambique have pursued concerted economical forms that have translated into annual growth rates of nearly 10 percent a year. Overall, in Africa the growth rate has risen from 1 percent to 4 percent in the last 3 years.

You mentioned in your prepared statement Cote d'Ivoire. While Cote d'Ivoire has struggled and is, indeed, poorer today than it was 2 decades ago, in the last year supporting a vigorous adjustment program, growth in Cote d'Ivoire has actually come to approach 7 percent.

The many disappointments that we face in the effort to develop some of the poorest countries should not blind us to profound progress that has taken place in the last generation. For IDA countries, countries that are only eligible for concessional lending, the poorest countries in the world, standards of living on average have doubled in the last 25 years. Infant mortality rates have declined by nearly 40 percent, fertility rates have declined by nearly 40 percent, primary education rates have increased by a third, and life expectancy has increased by 8 years. It is worth putting that last figure in perspective.

If you eliminated all cancer in the United States, life expectancy would increase by less than 3 years. So that 8 year increase represents a substantial achievement in human development. This is not to say there have not been huge disappointments, there have not been occasions where resources have not been used as well or as selectively as they could have and they should have been.

The United States has an important role in shaping policies of these institutions to the extent that we are able to meet our obligations. The IMF is now emphasizing earlier detection of emerging problems, encouraging countries to cut unproductive expenditures, and expanding its financial market surveillance.

The World Bank has increased the transparency of its operation, encouraged much greater participation of affected peoples in project design, created an independent inspection panel and auditing department and focused more attention on basic issues of governance, such as corruption.

The World Bank's reform efforts have culminated in a major new program recently proposed by President Wolfensohn. Under a strategic compact, the bank will move staff and decisionmaking into the field and develop an improved information system so that organization can better learn from its experience.

The administration supports this effort at reform and we continue to work with the bank on ways to refine the compact.

Let me say this, Mr. Chairman. I am convinced that leadership is not free and that we cannot lead with other people's money. Questions legitimately raised by others regarding our commitment to these institutions as large arrears accumulate erode our international influence and our credibility.

To preserve our capacity to lead, it is essential that we find a way to pay off our large and persistent arrears to the multilateral development banks which currently total $862 million. These arrears have accumulated. They are a legacy of commitments that have been made over many years.

Over the last 4 years, we have negotiated, as you mentioned in your statement, down the continuing budgetary cost of the multilateral development banks by 40 percent. In fact, the total of scheduled commitments of the United States to the multilateral development banks is now less than the annual commitment just to the IDA program that was entered into by President Bush and his administration. And yet, our failure to meet even these reduced commitments calls into question our commitment to the international system. We are at a critical point in our relationship with other donors and with these institutions. Our $1.56 billion request for the MDB's therefore includes $314 million as the first of 3 installments to clear our arrears by the year 2000.

Let me just in conclusion spend a couple of minutes ticking off the specific authorizations we are seeking.

For the IMF, we are requesting approximately $3.4 billion for U.S. participation in the new arrangement to borrow. This action, which does not have budgetary cost, represents a contingent set of credit lines to the IMF to deal with financial crises that could potentially threaten the stability of the international financial system. It provides us a way of locking in burden sharing in the event of any future Mexico type crisis.

IMF members are also reviewing the adequacy of current IMF quotas which finance the ordinary lending of that institution. If as a result of that review we believe that an increase in IMF quotas is needed and we are able to negotiate a satisfactory agreement, we will propose the Congress authorize an increase in the U.S. quota. We will consult with Congress as this review proceeds.

Again, let me emphasize that the administration and the Congress have agreed for many, many years under administrations and Congresses of both parties that transfers to the IMF, such as the new arrangement to borrow and the quota increase, are treated as

exchanges of monetary assets and, therefore, do not — do not — increase the budget deficit.

We are also requesting authorization for the remaining $75 million of the $100 million that we pledged to the ESAF program, the IMF's program for the poorest countries in 1993.

Let me turn to the multilateral development banks. Our authorization request for IDA is $1.6 billion, which we have pledged to fund the 2 year IDA replenishment for Fiscal Year 1998 and 1999. This commitment of $800 million per year is a 36 percent reduction from the $1.25 billion annual IDA 10 contribution negotiated by the Bush administration in 1992.

IDA has improved its effectiveness by increasingly concentrating on supporting health and institution building and education, which are building blocks of market led development. IDA has also — and this, Mr. Chairman, I think is a crucial point and one that Secretary Rubin and I have asked our executive directors in the banks to push — concentrated on becoming more selective and focusing resources on those countries that can use it well. 84 percent of lending over the last 4 years has gone to countries rated average or above average in terms of economic reform.

Our second request is for authorization for the final 3 years of the Inter-American Development Bank's eighth capital increase, agreed to in 1994. This would, at a cost of only $25 million a year to the United States, support $7 billion per year in lending to our hemisphere.

Third, we are requesting authorization for what we expect to be an important milestone, a final recapitalization of the European Bank for Reconstruction and Development. Our request for $35 million per year for the next 8 years is a 50 percent reduction from our previous annual commitment and would represent a terminal capital increase for that bank after which it would be operate in a fully sustainable way without further Congressional funding.

Fourth, we are requesting authorization for the Asian Development Fund, where we have recently concluded a remarkable successful replenishment agreement despite our $237 million arrears. This 80F7 agreement incorporates a 41 percent reduction in the annual U.S. commitment, as well as increased burden sharing from Asian donors.

Finally, we are requesting $34 million to cover recognizing the reality of debt reduction costs for the poorest countries and for Jordan.

Mr. Chairman, as I said in beginning my statement, I believe that what we do in the developing world will probably be the most important chapter that we will contribute to history books a century from now. I believe that these institutions, because of their leverage, because they take relatively small sums of American money and are able to do large things in the developing world, are as potent a tool of leverage in the developing world as any that we have.

At this point, we face a fundamental choice as a Nation. We can meet our obligations to these institutions and change them so they pursue our interests or we can fail to meet our obligations and allow them to pursue other agendas that may be much less related to American interests.

So I believe an agenda of meeting our obligations for bringing about the necessary changes is the right one for this country, and that is what is reflected in this budget.

Thank you very much.

[The prepared statement of Mr. Summers follows:]

PREPARED STATEMENT OF MR. SUMMERS

Mr. Chairman, it is a pleasure to testify before you today on the President's authorization requests for the International Financial Institutions (IEFIs). I have worked with these institutions for many years and I am pleased to have the chance to discuss with you how they serve our interests and how our continued leadership can make them better.

I will focus my comments today on authorization requests for the IMF's New Arrangements to Borrow (NAB) and Enhanced Structural Adjustment Facility (ESAF), on Multilateral Development Bank authorization requests for the World Bank's International Development Association (IDA), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (EDB) and the Asian Development Fund (ADF), and on our debt reduction programs. These institutions are a critical piece of the Administration's overall international affairs request which also includes our diplomatic resources, our bilateral aid programs, and agencies such as the Export-Import Bank and OPIC which level the international playing field for American companies.

The President has often said that America is the world's indispensable Nation -- that there are certain critical tasks on which the world depends that only the United States can perform. Leadership of the multilateral economic system is unquestionably one of these tasks.

As the world's largest economy, its largest exporter, and a country with truly global interests and reach, we have an enormous stake in ensuring that the global economy remains stable and growing. America's prosperity depends on the prosperity of our trading partners, who increasingly are in the developing world. The share of our exports going to developing countries is 42% and rising. US exports to developing countries were $351 billion in 1996.

The IFIs serve more than just our economic interests. Peace and democracy cannot flourish amidst abject poverty and financial crisis. In places like Haiti and Albania poverty and economic collapse were a prelude to social upheaval and violence. In the Middle East, lack of economic opportunity is a major factor contributing to political conflict. In the former Soviet Union, the path to stable democracy depends on the success of economic reforms. Our economic leadership is thus vitally linked to our national security and to our values as a Nation.

The Role of the IFIs

The IFIs -- which include the International Monetary Fund (IMF) and the Multilateral Development Banks (MDBs) -- are the linchpins of U.S. international economic leadership.

The IMF oversees the operation of the international monetary system and responds to shocks to the global financial system such as the debt crisis in the 80's and the Mexican financial crisis in 1994-95. It provides essential guidance and support to countries making free market economic reforms. Its normal lending, primarily to middle income and emerging market countries, promotes sound fiscal and monetary policy and open markets. Its concessional loans to the poorest countries through the Enhanced Structural Adjustment Facility (ESAF) support comprehensive reform programs which prepare countries for full participation in the global economic system.

Our participation in the MDBs determines our direct influence over $46 billion of annual development financing and our indirect influence over at least as much in co-financing. This is far more than we could ever provide bilaterally. MDB loans and policy advice support basic infrastructure, human capital development and institution building -- all essential building blocks of equitable, sustainable, private sector-led growth. The MDBS, led by the World Bank's International Development Association (IDA), are by far the largest supporters of AIDS programs, child survival, girls' education, clean water and other essential investments in basic poverty reduction. The MDBs directly invest in private sector projects in countries where their presence can unlock additional foreign investment. The MDBs often take the lead in coordinating aid programs, as the World Bank is currently doing in Bosnia, and thus are a major leverage point for how other international assistance is directed.

IFI Support for U.S. International Interests

By leveraging our relatively small contributions to these institutions we ensure that they are responsive to our priorities and support our foreign policy. Let me cite just a few examples of where the IFIs are advancing our interests:

- In Bosnia, where the U.S. has provided the leadership to begin the reconciliation process, the World Bank and the EBRD are coordinating $5.1 billion of their own and other donor funds to support the massive rebuilding process. These efforts, which build upon and extend U.S. bilateral assistance to the region, are critical to maintaining peace once the U.S. military presence is removed.
- In Russia, the IMF and the MDBs have helped keep fundamental economic reforms moving forward. The government's commitment to the program objectives of the IMF's current $10 billion loan remains strong, and the close working relationship between IMF and Russian government officials maintains momentum despite periodic difficulties. The World Bank and EBRD have supplied nearly $10 billion thus far in direct investments in private sector ventures, and to privatization and institution-building projects which lay the groundwork for foreign investment.
- In the Middle East, the World Bank is financing jobs programs in the West Bank and Gaza to help alleviate the employment crisis -- a key requirement for regional stability. Long-term MDB support for countries such as Tunisia, Jordan, Morocco and Turkey have helped those countries achieve economic progress and encouraged them to be moderating forces in support of the peace process. In the future, key MDB support for Middle East peace will be provided by the Middle East Development Bank which Congress authorized last year and for which the Administration has requested appropriations. This Bank will support cross-border infrastructure projects and regional private sector investment that will help to cement a peace agreement.
- In our own hemisphere, the World Bank, the Inter-American Bank and the IMF's ESAF program are providing hundreds of millions of dollars to support the difficult transformation of countries like Haiti and Guatemala. In Mexico, IMF balance of payments support has been integral to the recovery that has allowed the country to repay its loans to the United States.while continuing on its reform path. The MDBs are working aggressively on the basic policy reforms needed to cement the gains made thus far.
- In Africa, the MDBs are providing support for basic health care, institution building and infrastructure to countries such as Uganda and Mozambique. These programs underpin ESAF and IDA sponsored economic reforms which are allowing these countries to return to growth and stability after years of civil war. In Uganda, the rewards of nine years of concerted economic reform have translated into annual growth of around 10%. Mozambique is also showing signs of accelerating growth as a result of an IDA-led fiscal stabilization, privatization and demobilization plan. Foreign investment was nearly $500 million last year and, according to The Economist magazine, an additional $6 billion is under consideration by investors.

  The recent records of these countries belie the view that the IFIs cannot effectively assist African countries in private sector-led development. When the institutions and the countries themselves pursue a sound, market-driven growth strategy, the results can be impressive.

In these and many other areas, the IFIs are vital partners in our foreign policy. We have a strong interest in maintaining our leadership position so that they remain responsive to our international priorities.

The IFI Reform Agenda

Our traditional leadership role in the IFIs also gives us a strong voice in setting the reform agenda for the institutions.

In the IMF, we have concentrated on improving the quality of the Fund's economic reform advice and its early warning capacities. With strong U.S. encouragement, the IMF is emphasizing earlier detection of emerging problems, and in its lending programs is focussing on the quality of fiscal adjustment. It is also encouraging countries to cut unproductive expenditures such as military spending and to shift more resources to primary education and health care and to essential capital investment. Since 1990, military spending has declined significantly in countries with IMF programs while social spending has increased as a share of government outlays.

Responding to G–7 initiatives, the IMF has expanded its surveillance activities to give greater emphasis to financial markets and has developed a Special Data Disclosure Standard (SDDS) to guide countries in the provision of comprehensive, timely, and accurate economic and financial data. To improve its capacity to deal with crises in the event that prevention fails, the IMF has adopted new streamlined emergency procedures that permit the institution to respond more quickly to a member's request for emergency access to Fund resources.

The MDBs have also been actively reforming. Largely as a result of U.S. efforts, the World Bank has increased the transparency of its operations, encouraged greater participation of affected peoples in project design, created an independent inspection panel and an auditing department to evaluate project implementation, and focussed more attention on issues like the environment, corruption and labor rights. The Bank has also cut its administrative budget by 10% in the last two years.

The World Bank's reform efforts have culminated in a major new program recently proposed by President Wolfensohn. The "Strategic Compact" is an ambitious plan designed to improve the effectiveness of Bank programs in addressing poverty, particularly in Africa, and to focus the Bank on a fundamental set of development issues private sector development, environment, governance, corruption and participation which are key to sustainable development in a world where private capital flows are surging. Under the plan, the Bank will move more staff and decision-making to the field, develop an improved information system so the organization can better learn from experience, and adjust its skill mix to fit its evolving role in development. The Administration supports this effort at reform and has been working intensively with the Bank on ways to further define the Bank's mission -- including phasing out of some current activities -- and to reduce the cost of the Compact. President Wolfensohn and his staff have been responsive to our concerns and are committed to continuing to refine the Compact.

The Need for Continued Engagement

Mr. Chairman, the IFIs support our international interests and they are actively reforming along lines that we support. But they will not continue to do so if we fail to meet our obligations and pay our fair share. Leadership is not free and we cannot lead with other people's money. Questions regarding our commitment to the IMF, and our large arrears to the MDBS, erode our international influence and credibility.

Our leadership in the IMF over the last 50 years has helped ensure adequate resources for the Fund to meet both normal and extraordinary challenges to the global financial system. But with the rapid growth in world GNP and trade -- growth that this institution has directly helped to bring about -- the Fund has been steadily shrinking in size relative to the world economy and capital markets, even after the increase in quotas agreed to in 1990 and endorsed by the Congress in 1992. World GDP and trade have roughly doubled from the time of the quota review which resulted in that increase. The rapid growth of international capital markets increases the risk that crises can erupt very suddenly, resulting in a large financing gap for a country in crisis. In this time of rapid global economic change, it is particularly important that we remain fully engaged in determining and supporting an appropriate level of resources for the IMF which includes emergency borrowing capacity.

Paying off our large and persistent arrears to the MDBS, currently $862 million after the recent release of IDA funds appropriated in FY97, is also vital to preserve America's international leadership. Ironically, these arrears have accumulated during a period in which we were already sharply reducing our new commitments to the IFIS. Account by account, over the last four years we have negotiated down the budgetary costs of the MDBs by an average of 40%. This is appropriate given the increased capacity of other countries to share the burden and higher repayments from borrowers. Yet we have consistently failed to meet even our reduced obligations, calling into question our commitment to the international system that we largely created and that we have shaped over the last 50 years. As other donors have stepped in to pick up the slack, we have faced procurement restrictions on U.S. business and threats to our voting power in the Banks. I believe that while our leadership position in the multilateral arena remains largely intact, continued failure to meet our commitments would pose a growing threat to our long-term interests. We are at a critical point in our relationship with other donors and with these institutions and we must act decisively to fulfill our promises to them.

The Administration's Budget Request

Before I discuss our proposed authorizations, I would like to highlight the Administration's proposed $1.6 billion budget request for the IFIs which is part of the

President's 5-year plan to balance the budget. This amount does not include the required budget authority for the U.S. share of the IMF's New Arrangements to Borrow (NAB), since transfers under these arrangements are treated as exchanges of assets that are not scored as outlays and thus do not increase the deficit.

Our request achieves the following main goals:

- Meets our $1.2 billion of scheduled MDB commitments -- what we owe excluding our arrears. *This reduced annual commitment level to the entire institutional system is less than our annual IDA commitment alone under the prior IDA-10 agreement,* reflecting the 40% reduction in U.S. commitments we have negotiated.
- Fully clears our $234 million of arrears to IDA, which is the most important source of development aid to the poorest countries and where arrears present the greatest problem for our international leadership.
- Begins a three-year process of clearing our $862 million of overall MDB arrears. This will lead to a permanently lower level of required MDB funding after the year 2000.
- Provides approximately $3.4 billion in budget authority, and a related adjustment to the budget caps, for U.S. participation in the NAB, the IMF's new emergency reserve tank to be used in the event of a major international financial crisis.

The Administration's request for the IFIs represents our firm belief that, in the context of diminishing budget resources, these institutions cost-effectively serve the foreign policy, economic and security interests of the American people.

IMF Authorization Requests

The Administration is requesting authorization to provide the dollar equivalent of 2.462 billion Special Drawing Rights (SDRS) (approximately $3.4 billion) for U.S. participation in the NAB. This amount would be in addition to the SDR 4.25 billion previously authorized and appropriated for the General Agreements to Borrow (GAB).

The NAB was endorsed by the IMF in January, 1997. Modeled on the GAB, which was created in 1962, the NAB is a set of contingent credit lines to the IMF to deal with financial crises that threaten the stability of the international financial system in the event that the ordinary resources of the IMF are inadequate. The NAB would double the resources available under the GAB, bringing the total credit line to SDR 34 billion or approximately $47 billion. The GAB would remain in effect and could be activated independently, but the NAB would be the facility of principal recourse and no more than SDR 34 billion could be provided under the GAB and NAB combined. G–10 countries would participate in both facilities. By bringing in additional countries, the NAB provides better burden sharing among the international community than the GAB, while enhancing our ability to block inappropriate activation. The United States will have just under a 20 percent share of the total amount of the NAB which gives us sufficient voting power to block activation with the concurrence of one other participant, or in some cases on our own.

IMF members are also reviewing the adequacy of current IMF quotas, which finance the ordinary lending of the institution. If, as a result of that review, we believe that an increase in the IMF quotas is needed to ensure that the IMF has adequate resources to carry out its responsibilities well into the next decade -- and if we are able to negotiate a satisfactory agreement -- then we will propose that Congress authorize an increase in the U.S. quota. We will consult closely with Congress as this review proceeds.

With respect to credit lines to the IMF and quota subscriptions, the Administration and Congress have agreed since 1968 that transfers to the IMF are treated as exchanges of monetary assets and therefore do not increase the deficit. When we provide such resources to the IMF, we get a liquid interest-bearing claim on the IMF which is backed by its substantial reserves, including gold. Our claim is like a deposit in the soundest of banks on which we are paid interest and which we can withdraw on very short notice if needed. Since 1980, authorizations and appropriations have been required, but the "no outlay" treatment has remained in place. Consistent with this treatment, the Budget Enforcement Act of 1990 (BEA) provided for an adjustment to discretionary spending limits to accommodate the previous increase in the U.S. quota for the IMF. Following the precedent of the BEA, we will propose that there be an adjustment to the discretionary budget authority caps for the NAB and have already done so for a possible quota increase.

We also are requesting authorization for the remaining $75 million of the $100 million we pledged in 1993 to the ESAF for its Interest Subsidy Account. The ESAF provides up to $1.4 billion annually in concessional lending to the poorest countries

in Africa, Latin America, the Caribbean and the former Soviet Union who commit to making comprehensive, market-oriented structural reforms. The ESAF is also the vehicle for IMF participation in the multilateral initiative to relieve the unsustainable debt burden of the most heavily indebted poor countries (HIPC). ESAF donor funds are drawn very slowly and we are only asking for $7 million in appropriations for FY98. Nonetheless, as a way of affirming our commitment to this program which has helped create budding success stories such as Uganda and Mozambique, it is important that we provide full authorization. If we step back from our commitment to the poorest, others will join the retreat.

Finally, we may request authorization to vote in favor of an amendment to the IMF articles of agreement to provide a special, one time allocation of SDRs to enable newer members of the IMF to participate on an equitable footing in the SDR arrangement. Any allocation of SDRs would not require appropriation of budget authority

MDB and Debt Reduction Authorization Requests

Mr. Chairman, our current arrears situation with the MDBs makes this year's multi-year authorization requests for the Banks particularly important. It is vital that we send the signal that we are committed to these institutions for the long haul and are willing to bear our share of the financial burden.

Our authorization request for IDA is for $1.6 billion, which we have pledged to fund the two-year IDA-11 replenishment for FY98 and FY99. This commitment of $800 million per year is a 36% reduction from the $1.25 billion annual IDA-10 contribution negotiated in 1992.

IDA has become increasingly effective in its role of fostering private sector-led growth in the poorest countries. By concentrating on support for basic education, health and infrastructure, it is fostering the building blocks of economic growth. By helping build institutions to improve the legal system, enforce contracts, and reduce corruption, it is helping create an atmosphere where the free market can thrive. IDA has also become more selective by concentrating its resources in countries who show commitment to reform and privatization but do not have access to private capital. Eighty-four percent of lending over the last four years has gone to countries rated by the Bank as average or above in terms of economic reform. China will graduate from IDA in FY99 and its borrowing this year will be less than 20% of prior levels.

Results are starting to show. Average growth among IDA-only borrowers, excluding blend borrowers India and China, went from 1% in 1991 to 6% in 1995. In Africa, even with all of the crises of the last few years, overall growth has risen from 1% to 4% during the same period. As the World Bank continues to reform and the effectiveness of IDA programs improves, the return on our modest investment in this institution in terms of better trading partners and increased stability will continue to grow.

Our second request is for authorization of the final three years of the Inter-American Development Bank's eighth general capital increase, agreed to in 1994. This authorization would continue our annual commitment of $25.6 million of paid-in capital to the EDB which lends approximately $7 billion per year and leverages an additional $2.4 billion in co-financing. It continues to be instrumental in supporting the region's dramatic shifts toward greater democracy, lower tariffs, fiscal responsibility and economic growth. On the ground, the IDB is helping cement the Guatemalan peace process by funding roads into isolated areas and rural development programs to raise incomes in indigenous communities. It is helping countries like Mexico and Argentina to privatize and strengthen their financial sectors to reduce vulnerability to external shocks. It has also been a leader in developing effective micro-enterprise programs which bring financing and technical assistance to private enterprise at the grass roots level.

Third, we are requesting authorization for what we expect to be the final recapitalization of the European Bank for Reconstruction and Development. Our request for $285 million of paid-in capital over 8 years, or $35.8 million per year, is a 50% reduction from our previous annual commitment. We nevertheless maintain our status as the largest single shareholder in the Bank with a 10% share.

After deep internal reform, the EBRD has matured into an effective catalyst for economic reform and democracy in transition economies. Seventy percent of the EBRD's $10 billion in cumulative funding has gone directly to private sector projects where it has leveraged over $20 billion in private co-financing. As part of its charter, the Bank may only operate in market-oriented economies applying the principles of multi-party democracy. If a country's reform program lags, the EBRD reduces or ends it participation. The EBRD also is effectively targeting its resources to where they are most needed. As countries such as Poland, the Czech Republic

and Hungary attract more private capital, the EBRD is shifting its focus further East to the former Soviet Union, where its role as an a magnet for private capital is more sorely needed.

Fourth, we are requesting authorization for the Asian Development Fund where we have recently concluded a remarkably successful replenishment agreement. It is remarkable because we face arrears in the ADF of $237 million, slightly larger than our arrears to IDA. Despite this situation, the ADF-7 agreement incorporates a 41% reduction in the annual U.S. commitment with only a small reduction in our share from 16% to 15%. In addition, we achieved all of the major goals we had laid out when negotiation began:

- There are no procurement restrictions or special funds in the ADF which mirror IDA's Interim Trust Fund (ITF). I credit this result in large part to Congressional reaction to the ITF and the strong case the Administration made to lift the ITF's procurement restrictions.
- Despite the wishes of many donors, China and India will continue not to have access to the Fund.
- Very importantly, the Fund has set a goal to become self-financing in half a generation (about 15 years) which would eventually eliminate the need for future funding from donors.
- New high-growth Asian donors such as Korea, Malaysia and Thailand are taking a greater share of the burden. For the first time Asian donors as a group will provide ½ of the total funding for the replenishment. The new donor's among them have benefited greatly from the Asian Bank and Fund's support and are now showing their commitment to helping their poorer neighbors lift themselves out of poverty.

Finally, we are seeking authorization for our debt reduction programs for the poorest countries. Of the $34 million that we are requesting, $22 million will fund U.S. participation in Paris Club debt reduction for approximately 10 countries that may be eligible in FV98. Our request anticipates that Cote D'Ivoire, Ethiopia, Mozambique and Bolivia may qualify for treatment under the new Heavily Indebted Poorest Countries (HIEPC) Debt Initiative. Our debt reduction programs are part of a coordinated multilateral effort to ensure that the poorest countries which are undertaking economic reforms can reduce their debt burdens to sustainable levels. The remaining $12 million in our request will allow us to finalize the U.S. program of debt reduction for Jordan.

In conclusion, let me say that these MDB and debt agreements are a good deal for America - they significantly reduce the MDBs budgetary cost and they advance American interests. Together with the IMF programs you are considering, they will enhance our financial security and improve our long term trade opportunities. But, as I have said, we cannot lead in the multilateral system if we are unwilling to fund our commitments or to act to head off potential crises. I urge you to support the Administration's budget request and full authorization of these institutions as a statement of our commitment to international engagement and leadership.

Thank you. I look forward to your questions.

Senator HAGEL. Secretary Summers, thank you very, very much. What I would like to do is start a flow of exchange here with a number of questions and then we can, I suspect, use this opportunity to talk about all the dynamics of what you want to talk about and some of the things that we want to talk about for the record and just enter into a good, open dialog.

Mr. SUMMERS. Terrific.

Senator HAGEL. Some of my colleagues will be coming, and while they are not here I will take advantage of the chairmanship to enter into and engage you in some of these issues.

First, I think our role as the preeminent world leader is not only critical to understand and essential to implement, as you are talking about the resources that you and Secretary Rubin have obviously given some thought to as to where we want to go and how we want to prioritize those resources, but, as I said earlier and you and I have had a private conversation about this, this is a very unique opportunity and time in our history where we can prioritize our resources not just with what you are doing financially but as you touched in some of the areas on what we will want to do and

how it affects people, our national interest, and how it develops our foreign policy.

I think that is something that we want to get at, Secretary Summers, as much as anything else. Obviously we want to talk about numbers and dollars, but we want to talk about the long-term investment in lives and how that, then, relates in a relevant, direct manner to foreign policy for this country and our people.

With that, I see my distinguished colleague, Senator Sarbanes, has joined us. Since he has cured all of the housing ills in America, he can now turn to foreign policy. Senator Sarbanes.

Senator SARBANES. Well, we have only begun, Mr. Chairman. I have to go back to that hearing as well.

First of all, I want to welcome the Secretary before our subcommittee this morning. The Secretary and I have worked together over the years on a number of important international economic issues and we look forward to continuing that cooperation in the period ahead of us.

I actually think that this issue of the multilateral development banks is an important issue. We can't on the one hand argue that we want to share the burden with other countries whose economies have advanced, the international burden of one sort or another, you know, recognizing the importance of development for the under developed countries, and then pull back on our support for the multilateral institutions which are a classic example, I think, of effective burden sharing.

In fact, the U.S. percentage contribution in those institutions is, I think it is fair to say, on a very steadily declining downward trend line. I think there are a lot of misperceptions about the multilateral development banks and how they work. They have not been an unalloyed success but they have had some good stories, and I think if the U.S. is smart, the international financial institutions can play a key role in advancing our foreign policy and security interests.

As I noted, by leveraging contributions from other countries, each dollar we provide to the MDB's allows us to have far greater influence over policies and events than we otherwise would be able to exert.

Finally, let me say that I really have a very strong view on this question of arrearages. As I have just indicated, I would argue that the MDB's play an important role and, therefore, we should be supportive of them out into the future. But it seems to me there is no acceptable rationale that would justify failing to pay off the past commitments that the United States undertook and, therefore, other countries undertook commitments, in effect matching the U.S. decision. The other countries, with few exceptions, have paid those commitments and we have not yet made good on these obligations.

I know the administration has made some requests here in order to try to meet that problem, and I very much hope that the Congress will respond to that.

I, frankly, see this as a whole separate issue. This was an obligation we undertook. We constantly pound our chests that we are the world's leading power, the leader of now the entire world since there has been an implosion of the Soviet Union, and I think it is

a highly embarrassing position in which to find ourselves to be in arrearages to these institutions.

So I think it is critically important that we meet those arrearages. Failure to do so undercuts our influence in these institutions. Any time the U.S. comes to the table and sort of insists on reforms or on a policy change, everyone sits around the table and if they don't laugh directly in our face they laugh up their sleeves in the sense of who are you to come to the table when you are the biggest deadbeat here in the institution.

I just find that an embarrassing situation in which to find ourselves. Many of these replenishments that we are talking about date back to previous administrations. It is not a Democratic or Republican issue. These undertakings have been made and continue to be made over time in more or less consistent fashion by administrations. I just think we should meet the arrearages, clearly.

The next issue is what do we do going forward. I am supportive of continuing participation. But that is an issue for debate and we will have to weigh the pluses and the cons of doing so, and I would hope that the pluses would prevail out and that then we would move forward. So that is how I see the issue.

I hope, Mr. Secretary, we will be able to do something in this Congress to try to respond to this situation.

Now, Mr. Chairman, am I in a question session as well? Have you had a chance to ask your questions?

Senator HAGEL. Senator, since the two of us are running the show this morning, I think we will just do about anything we want. So you go right ahead.

Senator SARBANES. Well thank you. I do have a couple of questions.

Am I right in my perception that our failure to pay our full assessments in some of these MDB's has impacted negatively on our influence in the institutions?

Mr. SUMMERS. I don't think there is any question about it. As you may know, Senator, before I came into the administration I worked for 2 years at the World Bank. So I have a fairly clear sense of that institution. If you think about things that are important to the American Government—lending, finding ways to channel more money to the private sector and less money to public enterprises, putting a larger fraction of lending into support for programs like girls' education, putting more emphasis on selectivity and the avoidance of lending where there are serious corruption problems, applying leverage through lending to other countries, former colonies, to reduce their military budgets, just to give examples of the kinds of issues that those institutions face where we feel strongly, and making records public would be another one—these are all issues where American attitudes differ somewhat from those of our allies. And while we have made progress on each of those things over the last 4 years, I don't think there is any question but that if the United States was meeting its financial obligations and people didn't say why are you even voting as you are not paying your bills, that we would have been able to move those institutions much further and we would have been able to much more potently influence the way that $46 billion was being lent at a price that

I think would have been relatively small for us, small numbers of hundreds of millions of dollars per year.

I think regarding influence, our executive directors come back each year for a retreat where we discuss our policies toward all the banks. We are always saying we've got this idea, we've got that idea, we think it is very important that you get your bank to do something different in Country X, and they say to us look, on the ground the only thing the bank wants to talk about with us is how come we have not paid our bills. Countries with a tenth of the per capita income of the United States have paid their bills. How come the United States has not paid its bills and met its commitments?

So I think it has a tremendously corrosive influence in the sense that we have just been emphasizing that it reduces our influence. It also, frankly, reduces our leverage and our ability to get others to contribute more money to these institutions. And it leads to an unraveling of the multilateral approach to assistance in these situations, since you get these situations where each country decides not to work through the World Bank but to do its own projects and to plant its own flag. And when there is a good project to be done on the West Bank, you have 9 different countries rushing to do it first, bidding up the salaries of a small number of officials who can carry on a program competently.

So I think it is terribly destructive in terms of our influence in these institutions and I think it is terribly destructive to cooperation and efficiency in assistance efforts in places that are desperately important, like Bosnia and Haiti.

Senator SARBANES. Let me turn to another area.

I am concerned about the amount of information and disclosure that these institutions make on occasion. Much of it involves environmental issues. For instance, I understand that the IFC, the World Bank's private sector arm, has an information disclosure policy that is quite restrictive. I am told it does not allow for the release of any information once a project is approved by the Board of Directors.

I wonder if our representatives at the IFC have any plans to try to improve this information policy.

Also MIGA, the bank's political risk insurance arm, needs an information policy. As I understand it, you cannot even get information about environmental assessments of MIGA backed projects. They are not publicly available.

How much of a problem do you perceive this as being and what can be done about it?

Mr. SUMMERS. This is something that has been a concern of ours, and I think most people would agree that there has been real progress in the last 4 years, particularly at the bank, but that there has been somewhat less progress at the IFC.

We actively support the creation of an independent inspection function in the IFC which would serve to permit much of this information to come out in the way that many of the environmental groups have been concerned about. This has been a concern in particular of Congresswoman Pelosi over the years.

There are some important issues that need to be worked out. The issues I think are of two kinds. One is that the businesses that are carrying on these projects do not want full descriptions out for

their competitors to see for a variety of competitive reasons. The other is that other countries, frankly, are less enthusiastic about a fully transparent approach. But this is one of the—and I don't know whether it is one or two, or three or four—but this is one of the highest priorities of our officials at the World Bank and it is something that President Wolfensohn has proposed.

So I think we are likely to see progress on that going forward. But the thing that has to be balanced and that I think we can do a better job of balancing, frankly, is business interests and not disclosing all of the details of projects versus the legitimate environmental interests in knowing what is going to happen to affect the people.

I think this is very much a work in progress.

Senator SARBANES. Some of the environmental interests have assaulted the bank and even suggested it ought not to function. Now that, it seems to me, would raise very serious questions about how you get sustainable development around the world.

The argument that the environmental groups made is that the bank's private sector lending operations are replicating what the commercial banking sector can do and are not focused sufficiently on the sustainable development issue. Then, of course, it is compounded in that, even when they do focus on that issue, there is not sufficient transparency to allow the environmental considerations to be taken into account.

What is your response to that line of argument?

Mr. SUMMERS. Let me, if I could, Senator, just step back slightly from your question to try to put it in a framework.

We did an exercise several years ago as we thought about the various replenishments that were coming up of asking what was the role of the banks in today's world. When these banks were set up, there was no private capital market that financed projects in developing countries. The idea of India issuing an international bond issue was just something that was not on the radar screen.

Today, $250 billion a years in private capital is going into the developing world. So the question is what is the role of the banks in a world where that is happening.

Our answer was that there were three crucial roles that the banks have to play in such a world. First is support for projects that had a high social return but not a pecuniary bankable return, such as educating girls, which many of us have estimated as maybe the highest return project in the developing world. Carrying out sewage treatment, protecting tropical forests are others. These need to represent a much larger share of the banks' portfolio in the future than they have in the past.

In fact, over the last 4 years, the share of lending to these sectors has more than doubled, to the point where it now represents about a third of lending, and that has been in response to pressure from us and some other share holders, reflecting exactly the salience of environmental concerns.

Second, we recognize that there are many countries that are not yet fully able to access private markets for which the banks had a role in bridging their work to private markets. Of that $250 billion, some 90 percent goes to 12 countries.

Third, the banks have an important role in doing what is very difficult for a private sector agency to do, which is making loans that are conditioned on policy changes. For example, loans that are conditioned on policy changes to reduce subsidies to coal, which, in turn, lead to a great deal of environmental degradation; or loans that support infrastructure development but only on the condition that there is full popular participation.

So our focus in the banks is on supporting the kinds of policy reforms that promote our environmental, democratic, economic values, focusing on countries which will have difficulty accessing the private market and on supporting the kinds of projects that are not bankable in a commercial sense.

I think that approach, which was quite unconventional 4 years ago, has come to be a much more conventional approach and is leading to substantial reallocations of their portfolios.

I also think under Jim Wolfensohn's leadership and under Enrique Iglesias' leadership at the Inter-American Development Bank, the banks have drawn closer to a number of the environmental groups and have come to a greater understanding of the concerns of a number of the groups.

Senator SARBANES. I think Iglesias, in particular, has provided a really first rate leadership at the IDB. I attended an IDB conference many, many years ago in which he, or I think the first amongst many of the multilateral development banks held almost an all day session with the environmental groups and has subsequently tried, I think, to show a sensitivity to their concerns.

Mr. Chairman, could I just put two more questions to our witness? I don't want to impose.

Senator HAGEL. Sure. Go ahead.

Senator SARBANES. Thank you.

Would you say, Mr. Secretary, that often—because you mentioned this conditionality issue—by working through the multilateral institutions, the U.S. is able, along with others, to have important conditions imposed that are really necessary to get the discipline into the economies but without taking the blame or the finger pointing, which would occur if we tried to do that with respect to bilateral assistance. People sometimes say why do it multilaterally rather than bilaterally. Well, of course, multilaterally you get leveraging and you get burden sharing. But it also seems to me you can get discipline without being made the fall person in the politics of the country for doing that, which might well be the case and often is the case if it is done in connection with bilateral assistance.

Mr. SUMMERS. Senator Sarbanes, that is an absolutely crucial point and it is a point that is probably particularly crucial with respect to the International Monetary Fund, although it is also crucial with respect to the World Bank.

I give you an example of an area in which we have pushed the IMF and the World Bank to be more active. That is the whole area of financial supervision.

One of the security issues that has been in the headlines for the last several weeks has been events in Albania. That situation basically has, as its root, a failure of financial regulation, a massive pyramid scheme that blew up, impoverishing a significant fraction

of the population and almost completely undermining legitimacy of large parts of their government.

If we can avoid those kinds of situations within countries in the future, we need to have a mechanism that does that. It will always be extraordinarily difficult for the United States to say we are going to condition financial support on your having a bank regulatory system that meets the standard, or that standard, or some other standard.

On the other hand, an institution that can speak with the legitimacy of the entire international community, not just the United States, and which is there to take the heat—so it is not America that is doing this to Country X, or Germany that is doing this to Country X, or Japan that is doing this, but it is an international institution that is set up for this purpose, that has common standards that it applies to a large number of countries—I think there is no question that the kind of conditionality that is involved would be something that would be almost impossible for us to pursue diplomatically.

It is difficult in a session like this to give some of the specific examples where loans have been held up until corrupt officials were changed or until an instance of corruption was removed. But they represent a kind of activity that I think would be extremely difficult for us or for any other single country to undertake unilaterally.

Senator SARBANES. And, of course, if a single country tries to do it, then other countries may not do it in order to be able to gain an inside track in the country.

Mr. SUMMERS. Particularly where procurement is involved.

Senator SARBANES. Yes. I want to ask, finally, about procurement. Am I correct that, at least with respect to many of these institutions, the amount of procurement done in the United States significantly exceeds the U.S. contribution to the institution?

Mr. SUMMERS. I think in aggregate, Senator, we will furnish exact numbers for the record. But I recall numbers that are now probably a couple of years old that suggest that our procurement that is generated for U.S. firms in aggregate from the banks is about twice as large as the U.S. annual contribution to these institutions. So just in a very direct sense of payback, in terms of demand for U.S. products, they pay off, not to mention the contribution from, for example, joint ventures. Recently I have been in touch with officials from the European Bank, which works in Central Europe and Russia. They have a quite impressive record. $1 in every $7 of investment that has gone into their region has gone in in connection with one of their projects.

[The following information was subsequently received for the hearing record from Mr. Summers:]

The latest complete procurement data (1995) indicates that US firm procurement from the MDBs was $3.2 billion including loans and equity payments, while our contribution in that year was $1.8 billion, a roughly 1.8:1 to 1 ratio.

Mr. SUMMERS. Often their contribution is only 10 percent. They have really leveraged a large part of the private investment into it, and nearly 25 percent of those projects, those joint ventures, are with American companies, even though our share in the bank's capital is only 10 percent.

I have just been passed a number. Recalling that our annual commitment to these institutions is $1.2 billion, last year we received over $3.2 billion in business from the institutions. So that is a 2.7 to 1 ratio.

Senator SARBANES. Just to underscore the obvious, the balance of that procurement was, in fact, resulting as the consequence of the contributions made by other governments to these institutions.

Mr. SUMMERS. That's right. Exactly.

Senator SARBANES. Do you have all your positions filled at the various institutions?

Mr. SUMMERS. I believe that all the executive director positions are now filled, yes. They have been filled.

Senator SARBANES. Well, we are anxious that that be the case, that you have your team in place.

Mr. SUMMERS. Yes. We have actually been very fortunate. We have a first rate group of executive directors, and many of them, at least one of them has at least some past service as a staff member of this committee. This is Karin Lissakers at the IMF.

I am told that we have an executive director designate at the European Bank for Reconstruction and Development who has already been in a position to provide us with some very important advice on issues facing that bank. We are very much focused on the need to fill this team out.

Senator SARBANES. Yes, and Senator Hagel, to his credit, scheduled a hearing for her at really the earliest opportunity. We have reported it from this committee, and I think it is now pending on the Senate calendar. Hopefully, we will be able to get it through the Senate shortly.

Mr. SUMMERS. Yes, and thank you very much.

Senator SARBANES. I want to thank the chairman again. He really moved with great alacrity in handling that nomination.

Thank you, Mr. Chairman.

Senator HAGEL. Senator, thank you.

Secretary Summers, let me go back to the arrears issue that Senator Sarbanes talked a little bit about. As you know, I am a United States Senator for all of about 3 months. So I do not have the traditional base of information that most of my colleagues have.

Explain to me why we are in arrears, how that works. Are arrears considered in these multilateral banks definitionally the same way we reference arrears at the U.N.? Are these commitments that we make or are the terms that we use the same? Are they obligations? Are they voluntary obligations?

If you can, take me back through that and start with this question. Why have we found ourselves in the position, as you state, of being behind in these payments?

Mr. SUMMERS. If I commit a legal inaccuracy, somebody behind me will whisper in my ear.

In many ways it is parallel to the U.N. situation, but not in all ways. The administration negotiates replenishment agreements or capital agreements for these various banks. These agreements are negotiated with representatives of the other countries that are involved and they represent a total, and then that total is allocated among the different countries and an agreement is reached.

We, as a matter of practice, which I suspect is nearly compulsory—it probably is legally a compulsory practice—have close consultations with the Congress prior to entering into the replenishment negotiations and on what the U.S. strategy will be. So while there is no formal role prior to entering into the agreement, there is close consultation, and my staff and yours, for example, have been and will be in touch with respect to future negotiations that are coming up and that would require this committee's authorization.

The commitments typically are multi-year commitments, and the commitments are then authorized by the Congress. The question is then whether the funds are appropriated by the Congress to meet the commitment.

When I speak of $862 million in arrears, I am speaking about money that has been committed by the executive branch to the institutions and subsequently has been authorized by the Congress. So the only gap is that the funds have not been appropriated and, therefore, they cannot be paid.

But all of the $862 million in arrears represents funds that were committed with prior consultation and then were authorized by the Congress.

I should emphasize that, while I do not have the exact figures in front of me, the lion's share of the commitments which produced these arrears are commitments that were entered into by the previous administration.

Senator HAGEL. Do you think it is a result of the Congress not feeling that objectives have been met as to why we have had this arrearage problem? Are there thresholds or are there standards?

Obviously, one of the things that you stated earlier, when talking about investment, is measurable standards. These, in many cases, as you get down into these 7 multilateral institutions, are loans, not grants. I am trying to get my arms around a little bit as to why we are in this problem and then, second, what do we do about it and how you can make your best case to the committee, to the Senate and to the Congress as to how and why we should get caught up, which I assume you would like to do.

Mr. SUMMERS. I am not sure that I am the best authority on why the funds have not been appropriated. While clearly there is a range of concerns of the kind that you expressed in your statement and I expressed in mine about the performance of the banks, these are funds that were authorized. So I think the failure to appropriate them in part reflects the very strong budget pressures that Congress has felt in recent years. And it may reflect some sense that it doesn't make any difference, that it's, oh, just some international institution, it is a long way away, and it won't have any effect.

Well, I am here to tell you that it has a very, very important effect on our leadership.

I suspect also—and this is a tendency that I know exists I think with all of us—that it is more exciting in certain ways to start new things than to meet old obligations. So there is a tendency to want to earmark money for the newest international program or to start a new international initiative, rather than say well, we have not

been meeting our obligations and now we are. It does not have quite the same sizzle.

This is why we took a look at this situation starting in 1993 and set very strong standards that, given the budget situation of the country, there were limits to what we were going to be able to do. We negotiated the commitments downward to the level that we could sustainably afford.

This was, I think, a very important step. But this does not solve the problem of the overhang from the commitments that were negotiated in the early 1990's. So I think we have to work off that obligation, and when we do, we will be in a position to have these accounts be running at a much lower level.

But I don't think there is a tenable alternative approach. It is hard to see how we could justify the United States being a kind of international outlaw, failing to meet what was a solemn agreement on which other countries reasonably could have relied. I think that if we continue to try to do that, we will pay a very substantial price, not just in terms of lost influence but I think as we are already starting to see in the IDA case, U.S. businesses will pay a price because their access to procurement will be put under increasing pressure if we are not contributing to the institutions that are generating the procurement.

Senator HAGEL. I note here from some of the information I have that, if these numbers are correct, African nations now owe more than $52 billion to the World Bank and IDA. I suspect things like that have an effect as well on how the representatives of the people in this body have pulled back a little bit and are concerned about where is this money going if we have a $52 billion debt that is outstanding by African nations.

I am not picking on Africa, but I suspect you could go across the globe and find that elsewhere as well. It gets back to our original point about investment. I don't know if those numbers are correct, but certainly that is having an effect that is out of your control, too.

Mr. SUMMERS. If I could say, though, the figure you cite represents a cumulation of 40 years of lending.

Senator HAGEL. Yes.

Mr. SUMMERS. I think if you look, and we have looked rather closely at the financial position of the World Bank, you will find that it is really very, very strong; that the number of defaults has been quite low; that that has been the case even in situations where—of course, when you hear the statistic that the number of defaults are quite low, you ask the question has there just been relending to avoid default.

Senator HAGEL. Sure. There is then a new infusion of capital coming from the United States and everybody else.

Mr. SUMMERS. Sure. But I think you would find that there have been quite a number of countries that have been, for a period of several years, in a position of repaying the World Bank, even when they weren't getting new loans from the World Bank, which I think is really the right test for whether the loans are good.

Senator HAGEL. Do you have that number, by the way, that ratio of bad debt versus good debt?

Mr. SUMMERS. We will furnish it for the record.

[The following information was subsequently received for the hearing record from Mr. Summers:]

The number of countries with net negative flows to the World Bank -- ie. who on balance are repaying old loans rather than incurring new debt is 57 out of the 96 current and former borrowers from the Bank.

Mr. SUMMERS. The number of loans that are nonperforming now I suspect is under 2 percent of the portfolio and the reserves are much closer to 10 percent of the portfolio.

Mr. SUMMERS. I think it is also important in assessing the $52 billion figure to note that at least a part of that, and I suspect a significant part of it, is concessional loans that are 40 years loans at interest rates of 1 percent, which have been budgeted for and are part of what we paid for up front. But it is not that on those kind of loans there would be the same concern that there was an unpleasant surprise awaiting for us, since we have already budgeted for them to have a substantial concessional component.

I think that the concerns about lending and whether adequate standards of credit worthiness have been applied, I think most of the experts who have looked at this would say that that was not a major concern at the World Bank. I think that concern would be more serious, perhaps, at some of the regional development banks, and particularly that concern could be asked at the African Development Bank.

We have been working very hard with that bank to assure a tightening of standards and to assure that lending on a hard basis goes only in situations where it is warranted.

I think you will find at the World Bank, though, that one should never be absolutely certain, but that most of the people who look at it, who look at the performance record on loans and then look at the size of reserves, would feel that there is a lot of financial prudence there.

Senator HAGEL. Well, certainly you were there and you had your strong, insightful, clear-eyed arms around that when you were there. I know that.

Mr. Secretary, let me get back to a point that you made, too, because it kind of intrigues me and you started to get into it with Senator Sarbanes. If I have this right, you mentioned that $250 billion of private capital is going into developing countries. Is that right, as you know it?

Mr. SUMMERS. (Nods affirmatively)

Senator HAGEL. Should we be restructuring these multilateral banks in some way? I don't know where $250 billion stacks up in the last 40 years. I suspect we have never had that much private capital going in. I don't know that. But what I am getting at is something you and I talked about earlier, which is how do we do this better. How can we do it better? You talked in your statement about leveraging these resources.

Do you have any ideas about that?

Mr. SUMMERS. Yes. First, Senator, your premise is right. Flows in the last several years have been almost unprecedented, far larger than they have been in the past.

But, again, I think the first point to emphasize is that the vast majority of that goes to 12 countries, and there are another 100 countries that get much less.

I think the basic restructuring that is called for in response to that in the banks' activities is lending only where there is something to add. I tried, in answering Senator Sarbanes' question, to identify what I thought were crucial categories where the banks had things to add.

There is the whole human development and environmental area, where it is profoundly important to send a kid to school but there is not a payback screen to pay back a bank for doing that. The countries where credit worthiness has not been fully established but where the opportunity to borrow from the World Bank contributes to the establishment of credit worthiness is another example. Also are loans where the World Bank, by virtue of being an international, kind of quasi-governmental organization, can impose conditions of a kind that a private bank could not on reducing tariffs or privatizing enterprises. Finally there are loans that are directed at catalyzing further private sector lending.

For example, when I was in Russia just several weeks ago, I visited a project under development for the World Bank where the World Bank's only role would be to provide a guaranty against expropriation type risk that would then be cross-guaranteed by the Russian Government. That makes it easier for a major U.S. aerospace company to come in there and once they are in there, there is no incentive to violate the covenants because the Russian Government would just have to make a payment to the World Bank.

So you can lend in a way that supports without supplanting the private sector.

I think these kinds of ideas, restructuring around what the private market cannot do, are very much the essence of what Jim Wolfensohn is trying to do in his strategic compact at the World Bank and is very much what Enrique Iglesias at the IDB has done. I think that we, the United States, can take some credit for the fact that the terms that we have reached in these agreements that you asked me a few moments about—you know, how we came to these arrears—as part of these replenishment agreements, there is a replenishment agreement which addresses in important ways the bank strategy.

So there are, in effect, conditions on the institutions as a condition for getting the money. We have negotiated a set of conditions that have basically produced substantial movement toward this kind of reinvention, away from things that the private sector could be and perhaps should be doing in today's world.

I don't want to oversell this. I don't want to tell you that there aren't more ways in which we would like to see the banks change, or that they are not still doing some things that it might be better if they stopped doing. But I think we would be in a much greater position to accelerate this process of reinvention if we were meeting all our financial obligations.

Senator HAGEL. Do you think the multilateral institutions that we are involved in are more significant today, less significant, about the same, than, say, 20 years ago?

Mr. SUMMERS. I think they are probably more significant for three reasons.

First, they have a crucial role in addressing problems within countries. If you think about our crucial security problems today,

whether it is Bosnia, whether it is Haiti, whether it is Russia, they, in many, many cases, not to mention global warming security problems, in many, many cases they involve problems that take place within countries rather than problems that take place between countries.

So our capacity to influence policies within countries in our interests, I think these are our best tool for doing that for the reasons Senator Sarbanes and I discussed, in terms of the ability to maintain political distance.

Second, I think that the developing world, frankly, 25 years ago was marginal to U.S. economic interests. Today it is the most rapid growing source of export demand and exports are the most rapidly growing source of advantage for our economy. So supporting economic reform in developing countries is much more important then than it is now.

Third, I think they are most important right now in a political sense because with the security organizations in some cases less salient than they once were, they are the one set of institutions where countries come together and they do not just talk but actually do something. They work together to promote common interests in key regions, like Latin America.

In a real sense I think you might say that the multilateral development banks are to the New World Order what the collective security organizations were to the former world order.

So I think they are much more important, basically, because the developing world is much more important than 25 years ago. Something that is very disturbing to me is if you look at the size of our contribution in real terms, after correcting for inflation, now versus 20 years ago or now versus 15 years ago, it is just way, way down. That makes it a particular tragedy, that we are not even able to meet the size of the contribution that we have committed, which is much reduced from a time when these institutions were probably less central to our interests than they are today.

Senator HAGEL. Would you apply that to China, for example? China is receiving as massive amount, as you know, of private investment, still, I believe, taking down World Bank loans.

Would you characterize China as still being in that part of the orbit that you have just characterized as to the importance of these multilateral banks today versus 20 years ago?

Mr. SUMMERS. China is a complicated case.

As you know, China had a major change in course in 1978 toward economic reform. A substantial part of the blueprint for that reform and for moving toward more capitalist institutions came from a major World Bank six volume study that was done in 1980.

Frankly, it has been my view, and I think the view of most American officials for some time now, that China was an inappropriate candidate for concessional lending.

As part of the international negotiation process since others disagreed, we continued concessional lending in the current IDA, but have now reached an agreement that starting in 1999 the World Bank will cease making any concessional loans to China, which I think is an important milestone given the size of their reserves.

The bank will continue to have a role in making loans on hard money terms to China in certain areas, and I think their lending

has been importantly catalytic with respect to certain aspects of environmental sensitivity and certain aspects of private sector development in China.

But, clearly, in looking at the lending program for China, it is very important—and this is the guidance our executive directors give—that the lending be directed at being constructive with respect to our broad agenda with respect to China, rather than supporting the kinds of things we would like to try to bring about change in China.

But I think the end of concessional lending to China represents a really substantial and important milestone.

Senator HAGEL. Thank you.

Senator Sarbanes.

Senator SARBANES. Mr. Chairman, I do not really have any further questions. I do want to make this observation.

I think it is important to recognize on the public record the efforts that Treasury has made to reduce the budgetary costs of the international financial institutions. I mean, when we do these hearings, it is always about the budget request for the next year and there tends to be a focus, then, on the amount that is being asked for in the budget context in which we find ourselves.

It seems to me, just to sort of broaden the context a little bit, as I understand it, there has been a sort of multi-pronged effort to address this question.

First of all, I gather you have lowered the ratio of paid in to callable capital.

Mr. SUMMERS. (Nods affirmatively)

Senator SARBANES. Second, you have stretched out replenishments over longer periods of time, so the cycle has been lengthened. Reflows and net income are being used for the soft loan windows as a way of addressing that issue, and new donors have been brought in. I think the percentages of some countries have, I think, been adjusted upward—I am not certain about that, but I think that is correct—to reflect the relative strengths of their economy. And there has been a major negotiation reducing the U.S. commitment.

Am I right that our overall annual commitments are now 40 percent lower than they were under the prior set of replenishments? Is that correct?

Mr. SUMMERS. That's correct, yes.

Senator SARBANES. Well I think that is a very striking achievement, frankly, to in effect continue out the work of the IFI's and to have the subsequent replenishments, but for the U.S. burden in those subsequent replenishments to have been reduced 40 percent.

One of the problems we are facing now is we are trying to meet the current obligations and clear the arrearages. Now if we could once clear the arrearages, as I understand it, the permanent obligations would represent a significant drop from the previous level of obligation.

Is that correct, Mr. Secretary?

Mr. SUMMERS. That is correct. In the current appropriation, in the current request, about more than 20 percent of it, in excess of $300 million, is to clear about one-third of the arrearages we have accumulated in the past.

Senator SARBANES. Then you are going to have to ask for that in subsequent years to finally clear it all.

Mr. SUMMERS. That's right.

Senator SARBANES. Once it is finally cleared off, where are we going to be in terms of what you will be asking for each year—this is with no arrearages, then, to deal with—compared with what was previously being sought? Will not there have been a significant drop in the amount?

Mr. SUMMERS. That, Senator, is the 40 percent reduction. We will be seeking about $1.2 billion, just above $1.2 billion a year for these institutions, and the commitments that were inherited in January 1993 were in the range of $1.9 billion to $2 billion a year.

We have negotiated those commitments down with, frankly, I think it has been two parts good negotiating and good financial engineering and one part, because we are able to contribute less, the institutions are able to do with a little bit less. So it is both, I think, some tough minded financial management and it is also just a recognition of reality and making painful choices.

Senator SARBANES. But that part of it is accepted by the international community, is it not?

Mr. SUMMERS. That part has come to be accepted. It has come to be accepted.

So I think it is important to emphasize in the overall budget context that the cut the Congress has put in the appropriation for the multilaterals in the last 2 years of 45 percent is one of the deepest cuts that you can find anywhere in the foreign affairs area or, indeed, more generally, looking across the whole budget.

Senator SARBANES. And, of course, that is right in the face of a very skillfully negotiated reduction in the U.S. undertakings.

I think that really needs to be put on the record because there is a tendency to take what you have done and just kind of put it in your pocket without recognizing the achievement it represents.

Mr. Chairman, I think it is very significant that if we could just clear this arrearages problem at a level of $1.2 billion, they could carry through from what was previously a level of just under $2 billion annually, which is obviously no small achievement, particularly when you factor in, which we do not, the fact that on the procurement side we are getting $2.50 in American procurement for every $1 that we are putting in.

I don't think we ought to let the Secretary come and go without some recognition of the skillful negotiating they have been doing in the face of having to carry this burden of the arrearages problem, which is not a good way to be at the table trying to negotiate a tough deal.

Thank you very much.

Senator HAGEL. Senator, thank you.

Mr. Secretary, let me ask a couple of other questions and then we will submit questions for the record as we always do. Then I would be pleased to entertain any additional comments.

I wanted to ask a question regarding the budget. In your testimony, you make clear that the administration wants very much to participate in the IMF's new agreements to borrow. The President's budget contains a line item of $3.4 billion to help establish this new international line of credit.

However, the President's budget did not seek a waiver, as I understand, of Section 251 of the Budget Act relating to how this funding will be scored against overall discretionary spending caps.

I understand Senator Domenici, the chairman of the Senate Budget Committee, would like the administration to request a budget waiver for NAB funding. Can you shed a little light on this?

Mr. SUMMERS. It is our intention to seek the waiver that Senator Domenici would like us to seek.

Senator HAGEL. All right. Thank you.

I have some prepared questions here that we have really kind of gotten to in general ways and in some more specific direct ways. But let me ask you, Mr. Secretary, if you would like to add anything for the record or conclude with any remarks.

Mr. SUMMERS. If I could, I will not try to summarize the basic argument, because I think I have stated it. But let me try to just make three additional points if I could.

First, there are important programs that are not being funded that do not require authorization that we have not mentioned here today—new authorization. I would highlight in particular the Global Environmental Facility, which has been the lead international organization in taking on problems like biodiversity, the deterioration of international waters, and depletion of the ozone layer. We have been funding only a small portion of what we owe to that institution, and I think in light of our commitment and desire to show leadership on global environmental problems our failure to make an additional contribution, whatever it is—the increment is less than $100 million a year, the total that we would need is $100 million a year; we have been funding it at a rate of closer to $30 million—is just a terrible tragedy for America's ability to be able to be a leader in those institutions.

Second, we have spent most of our time talking about the multilateral development banks. I just want to highlight for a second that there is also the question of support for the IMF, which really is crucial to economic reform in many countries. One thing that I think the science of economics does know is that economies and democracies do not survive hyperinflation, and that if we are to have a chance of promoting the kind of stability in countries that we want to see, we have to enable them to create a stable financial environment. That is the task of the IMF and it has had a number of very conspicuous successes in that task in recent years.

If we do not want to be called on when there is a financial crisis to provide a bail out, we need for there to be an IMF that is working to prevent financial crises.

I think they have done a particularly important thing in the last year by setting a standard that exists for countries on the way they have to disclose all their data. In many ways, it is like generally accepted accounting principles here in the U.S. we are finally getting something like that for developing countries.

I think that is going to have a big effect in making markets surveil people and, probably more importantly, as accounting standards do in this country in reducing the tendency to slip and slide when you have a problem.

The third thing I would just say is that if I had to reduce everything we have been saying here today to one thought, it would be

this one. This is forward defense of American interests. This is forward investment in our security, by creating conditions that will prevent kinds of conflicts from emerging in which Americans will have to intervene much more expensively in a military way and much more expensively in terms of human life. And to invest another few hundred million dollars in making it possible to create greater stability in the developing world where most of the world's people live, even if there is only a small chance that each bit of it will prevent another Somalia, or another Bosnia, or another Haiti, just in terms of its direct consequence for the U.S. budget, not mentioning any economic benefits to exporters and all of that, if it has even a small chance of preventing one of those incidents, fully meeting our obligations will pay for itself many times over.

Thank you very much.

Senator HAGEL. Mr. Secretary, as always, we are grateful for you coming before us today and giving us your thoughts. I might echo my colleague, Senator Sarbanes, and his compliments to you and your team. We appreciate the work you are doing.

We all have an obligation here and a responsibility. We are on the same team and we will look forward to working with you as we go down the road.

Mr. SUMMERS. If we have done things right in the last few years, it is in no small part due to Bill Schuerch, who has worked on these issues for many years from both a Congressional perspective and, more recently, from an executive branch perspective, and his extraordinarily able predecessors, Lionel Johnson and Susan Levine, who I think have really done an absolutely fantastic job of standing up for the United States in these negotiations.

Senator HAGEL. Thank you. The record will reflect that.

I got acquainted with Susan Levine many years ago, when we were both interest he real world and actually making more progress maybe than what I am doing here. She has always been very talented and has been an asset to this country in every way.

I would remind you, Mr. Secretary and your team, that we will keep the record open until close of business on Friday for my colleagues to submit any questions. We will have written questions.

Thank you.

[Whereupon, at 11:30 p.m., the hearing was adjourned, to reconvene at 2 p.m., June 12, 1997.]

MARKUP: THE FOREIGN AFFAIRS REFORM AND RESTRUCTURING ACT OF 1997

THURSDAY, JUNE 12, 1997

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 2 p.m. in room SD–419, Dirksen Senate Office Building, Hon. Jesse Helms, (chairman of the committee), presiding.

Present: Senators Helms, Lugar, Coverdell, Hagel, Smith, Thomas, Grams, Ashcroft, Frist, Brownback, Biden, Sarbanes, Dodd, Kerry, Robb, Feingold, Feinstein, and Wellstone.

Also present: Senator Gregg.

The CHAIRMAN. Thank you, Senator Robb, for joining us. The committee will come to order. This afternoon the committee is meeting, of course, to consider the Foreign Affairs Reform and Restructuring Act of 1997, which, as is well-known, provides sweeping and long-overdue reforms to America's foreign affairs agencies, and mandates tough reforms of the United Nations.

From the beginning it has been my hope that this effort would be a bipartisan one, dedicated to the reorganization and revitalization of our foreign policy institutions. Unfortunately, in the 104th Congress the effort degenerated into regrettably a partisan battle, and when Congress finally enacted legislation to send it to the President, the President vetoed a bill that would have eliminated just one Federal Agency which had temporary status for half a century. Ronald Reagan used to say there was nothing so near eternal life as a temporary Federal Agency.

In any case, this year I was determined that this spectacle would not be repeated. Shortly after the election last November I spoke with the President and I expressed the hope to him that we would and could work together this time around, thereby forging a proposal to give the American taxpayers a break, certainly a more efficient and effective foreign affairs apparatus, and the President agreed.

I also conveyed this hope both publicly and privately to Secretary of State Albright, who unhesitatingly agreed to work with us in a bipartisan fashion, and she has been true to her word.

Also, I discussed this matter with the distinguished Ranking Member, Senator Biden, who readily agreed that it was essential that this be a bipartisan project.

Thereby, we together sent the administration a clear message that there must be no repeat of the unsuccessful battles waged in 1995 and 1996, and to the credit of both the President and the Sec-

retary of State, the administration came forward with a reform plan addressing many, though not all of my key concerns, and in the ensuing months Senator Biden and I, along with our respective staffs, devoted dozens of hours to hammering out the final package that we have before us today.

Let me make this clear. Neither of us got everything we wanted, but the result of that give-and-take is the legislation that we have before us, a bipartisan bill that will abolish two of those 50-year-old temporary Federal agencies, the Arms Control and Disarmament Agency, ACDA, as it is known, and the U.S. Information Agency, USIA, and bringing some of the functions of a third such agency, the Agency for International Development, AID, under the direct control of the Secretary of State.

Candor requires that I make clear that if I had my way we would abolish AID entirely and start over again, but I also recognize that this bill is the first step in a long process of inventing and reinventing our foreign affairs apparatus.

Now, rest assured we will seek further reforms in the years ahead if I have anything to do with it, but for now this legislation does disestablish AID's independence from the Department of State.

By transferring many AID functions to the Department, including the legislative affairs and the public affairs functions, and it will assure that the allocation of economic assistance henceforth will be administered by the State Department and directed by the Department of State. Under this reform package the Secretary of State will at long last—at long last—have policy control over this Nation's foreign aid programs.

Now then, the legislation also contains the U.N. reform benchmarks that I promised United Nations Secretary-General Kofi Anon. He instructed me to remember that his last name rhymes with canon, Kofi Anon when he came down and visited with our committee back in January.

I believe it is fair to say that this bill represents the most comprehensive and far-reaching U.N. reform package ever considered by the Congress of the United States. Among other reforms this bill will require the United Nations to reduce the size of the U.S. contributions from 25 percent today to 20 percent by the year 2000, a measure that will save the American taxpayers roughly $100 million a year.

It will require the United Nations to adopt a real negative growth budget and eliminate at least 1,000 bureaucratic jobs. It will prohibit future United Nations global conferences—for example, the Beijing Women's Summit and the Rio Earth Summit—meaning that the American taxpayers will not have to pay the large cost of such meetings.

It will require the United Nations to reimburse the American taxpayers for United States contributions to U.N. peacekeeping operations, meaning that the U.S. defense budget will no longer be raided to support U.N. experimentation with such operations.

And most importantly, this bill would prohibit the payment by the American taxpayers of any so-called U.N. arrears until—and let me emphasize, until these congressionally mandated benchmarks have been met by the United Nations.

The message to the U.N. is simple but clear: No reform, no American taxpayer moneys for so-called arrears.

Last but certainly not least, this legislation is authorizing funding for the Department of State and other related agencies, and imposes very strict and very specific disciplines on spending.

Now, let me reiterate at this point that this so-called chairman's mark is a bipartisan effort. It does not contain everything that I wanted. Senator Biden is a tough but fair negotiator. Nor does it reflect everything that the Minority desires, but in the end, all things said, I believe we have produced a bill containing important reforms for this country and for the taxpayers of this country.

And let me say, with all the sincerity I possess, that I appreciate Senator Biden's effective cooperation in helping to move this process along. It says a great deal that this package is being introduced today as the Helms-Biden bill.

Of course, calling it the Helms-Biden bill is in a way a misnomer, because this legislation would not have been possible without the tireless efforts of the chairman of the International Operations Subcommittee, Senator Rod Grams. Senator Grams has devoted countless hours presiding over oversight hearings on issues contained in this bill and to working with other Senators and me to craft legislation that the committee can support.

I have particularly relied on Senator Grams' special expertise as the congressional delegate to the United Nations in the crafting of a comprehensive United Nations reform proposal. Senator Grams is the author of many of these historic reforms, and I believe he has earned a place in the annals of U.S.-U.N. relations for his work in designing this package.

I hope that the spirit of bipartisanship so evident today will continue throughout this meeting today, and that the committee can complete its markup today.

As I said earlier, I intend for this committee meeting to continue until we have finished our work on it, because if we can complete our work today I am told by the Majority Leader that the full Senate can consider this legislation as early as next week, and in that way this bill will be on the President's desk at the earliest possible time, at which point it is my full expectation that the President of the United States, continuing the spirit of bipartisanship so evident today, will sign this bill into law.

With that in mind, I now yield to the distinguished Ranking Member.

Senator BIDEN. Thank you, Mr. Chairman. We are scaring the living heck out of everybody. Helms-Biden, I am sure that half the guys on your side are going, oh my God, it cannot be any good if Biden signed on with you, and I know half the people on my side are saying that to me.

But this is not just the Helms-Biden proposal here. I want to make it clear that the administration has been aware of every single solitary compromise that I have agreed to. They have not necessarily agreed with every one of them, but they have been aware of it all.

And so I fully expect—and I spoke with the President last night about this. I fully expect—he did not comment, he did not respond to me, I want to make clear—that I fully expect that if we pass this

bill in the essential form it is in now that it will be signed by the President.

I want to thank you personally, Mr. Chairman. I know that we are sort of this year's odd couple in the Senate, most people think, but you and I have been working together for 24 years. We came the same day, and we have very different views on a number of things.

But when I took over this spot on the retirement of Claiborne Pell you and I had a long talk, and I think it is appropriate to lay it out here very briefly, which is that I went over to you not only to pay my respects to you as chairman, but you and I talked about the future of this committee, and I indicated to you then, as you did, that we wanted to make this committee relevant.

We wanted to make this committee relevant in the sense it makes no sense to be on this committee if we do not pass an authorization bill. I might as well have joined the Appropriations Committee and forgotten this committee, and there is the Appropriations Committee member who writes our bill for us, and he is generous all the time, I know.

But I might as well have stayed on the Intelligence Committee or moved to the Armed Services Committee, because the practical fact of the matter is the major items on the agenda of this committee, in large part because of lack of any bipartisanship, have in fact been determined by other committees, and I did not sign on for a fifth term to be irrelevant in that sense.

You made it clear that it was your intention to do the same. As a consequence of that you have made some, and I can see it on your face, some very, very difficult compromises. I quite frankly know it has been hard for you on some of these compromises, as it has been for me, but these compromises have not been compromises that have, I think, in any way compromised principle that we each of us share.

We are not in agreement on all that is in this package, but in a sense, in the 24 years that I have been on this committee, I do not know of any package that has been as significant or as broad or as all-encompassing as this one effort we are attempting to make.

And I might add Lee Hamilton and Chairman Gilman attempted and thought we had all talked about this—they were going to attempt to do the same thing. It is just a little more difficult over there.

But this mark has three big components. When we talked at the beginning of the year we both said there are five major items on this committee. One we disagreed on, but agreed to fight out, and that was the chemical weapons treaty.

The second one was the U.N. arrearages and reform. The third one was the authorization. The fourth one was the reorganization of the State Department, and one left to go—or these still have to go, but the last one was the expansion of the United Nations. I mean, the expansion of NATO.

That is a Freudian slip on my part, and my desire to expand our efforts at the United Nations. I am sorry, Mr. Chairman.

So here we are. This is the basic authorization legislation for the Department of State, the U.S. Information Agency, the Arms Control and Disarmament Agency, and the Peace Corps.

The funding levels in this bill closely reflect the President's budget. The total bill for fiscal 1998 is $6 billion as compared to the request of $6.1 billion that the President asked. In fiscal 1999 the amount provided in this bill is $5.9 billion. This is a modest reduction, and the reduction is in the international organizations account, consistent with the administration's commitments.

Within this framework we have provided full funding for the State Department's core activities, and that is the diplomatic and consular program salaries and expenses, protection and maintenance of embassies. After years of reductions in spending on diplomatic readiness I am heartened that we have provided the full amount of the President's request in this account, 99 percent of the funding for USIA diplomatic programs, full funding for exchange programs, full funding for international broadcasting, full funding for the National Endowment for Democracy, the Peace Corps, the Asia Foundation, and most international commissions, and $819 million for 3 years, to pay on our U.N. arrearages.

The only reductions of note come in two accounts, Contributions to International Organizations, and Contributions to International Peacekeeping Activities. I regret the cuts in these important activities, but recognize we are closer today than last week, and hope we can make further adjustments prior to this bill becoming law.

I point out to my colleagues who support these programs that they are fully funded, or nearly fully funded in the House authorization bill. I also regret, as I am sure you do, various portions. I also regret the inclusion of certain foreign policy provisions to which the administration and some of my colleagues have registered their objections. I hope we can continue the dialog about modifying these provisions as the bill moves forward, and in that spirit I would hold proposing any amendments to these provisions at this time.

A second point I would like to make. The bill provides a framework for reorganization of the foreign affairs agencies that is consistent—that is consistent with the plan announced by the President on April 18, and you have come a giant step in accommodating their registered concerns, sticking to your commitment to have a fundamental reorganization downtown.

Like the President's plan, the bill provides for integration of ACDA into the State Department within 1 year, but ensures that arms control function is maintained in the position of prominence by establishing a position of Under Secretary of State for Arms Control and International Security.

Like the President's plan, the bill provides for integration of USIA into the State Department within 2 years, and creates the position of Under Secretary of State for Public Diplomacy. There is only one minor difference. It integrates the Office of Public Liaison and Legislative Affairs into State in 1 year.

In addition, the bill puts flesh on the bones of the President's plan with regard to international broadcasting. The President's plan is virtually silent on the question, stating only the ''distinc-

tiveness and editorial integrity of the Voice of America and the broadcasting agencies would be preserved.''

This bill upholds and protects that principle by providing the existing Broadcasting Board of Governors will be maintained as a separate Federal entity. All the broadcasting agencies will be under the oversight of the board. There will be a dotted line relationship to the State Department, and the Under Secretary of State for Public Diplomacy will have a seat on the board. Additionally, the Secretary of State will provide foreign policy guidance to the board.

I should emphasize here that all the existing principles and guidelines for international broadcasting set forth in the legislation enacted in 1994 will be retained. So that everyone may have full appreciation of these standards, we will circulate a copy of the relevant sections of the existing statute and show how we have amended the statute in the mark.

Like the President's plan, the bill maintains AID as an independent agency. Let me repeat that. It maintains AID as an independent agency but provides for partial integration of the Agency for International Development into the State Department.

Just as the President announced, the AID administrator will be placed under the direction of the Secretary of State, and consistent with the plan's objectives to improving coordination between the regional bureaus in State and AID, the Secretary will have the authority to coordinate aid policy. This is hardly a radical concept, Mr. Chairman. We have had aid coordinators in the State Department since the early 1990's to supervise aid programs in Eastern Europe and the former Soviet Union.

This legislation is modeled on that concept. Indeed, the language is borrowed directly from the Freedom Support Act, which I had the privilege of coauthoring.

It bears emphasis that, unlike the bill reported by the committee last Congress, this bill does not—does not—mandate specific reductions in budgets or personnel. Instead, it requires only periodic reports on savings that are achieved.

Additionally, the legislation provides considerable flexibility to the administration to reorganize the foreign affairs agencies within the framework we have provided. The President and Secretary are given the authority to develop and implement a reorganization plan. Ultimately, there will be some transition and personnel authority that the administration will need. I hope the administration will be prepared, by the time we go to conference, to present us with the proposed legislation in that regard.

The administration has submitted legislation which would authorize it to reorganize with maximum flexibility—their phrase—but this plan does not provide any less flexibility to reorganize.

To be sure, the plan locks in the date for the ultimate integration of the two agencies into State, and it speeds up the partial integration of AID into State. That is the difference. But I think it is good policy.

But within the broad outline, the administration has considerable flexibility to take and implement the thousands of decisions required under the reorganization. Ultimately it will have to come back to Congress for certain authorities. This is not extraordinary.

This is the daily business of Government, and so I hope the administration will work with the committee on this procedure.

If the administration is committed to the reorganization outlined by the President on April 18, as I believe it is, then it should have no trouble implementing the legislative framework laid out in this bill.

Finally, Mr. Chairman, the bill provides for payments of U.S. arrears to the United Nations. The agreement which is before us in division C will allow us to pay $819 million in arrears to the United Nations over a 3-year period, contingent upon the United Nations achieving specific benchmarks, to borrow your expression.

I will mention a few of the particularly noteworthy benchmarks. The plan calls for a two-stage reduction in our regular assessment from 25 to 20 percent. At today's budget level, that would mean the United States would save nearly $65 million in each year of regular U.N. dues.

Now, those who say to me, and the editorials I read, and some of my friends in this committee say, we should not be having any benchmarks. Well, I have been here a long time, and I notice we have tried to pay these arrearages for a long time, and we have got nowhere, so we either compromise or we get nothing.

And the fact of the matter is, the House has nothing, and the fact of the matter is, as well, that this notion of telling the U.N. that certain things have to change I am not making a lot of apologies for, for if we were today to be establishing the U.N. in the first instance, does anyone think, in light of the other world economies, we would be assessed 25 percent?

Now, granted, it would be better if it was not conditioned, in my view. That is where my friend and I have a disagreement. But my choice here, as I see it, is to condition and get what the administration says is the bare bones they need, or get nothing, and it seems to me it is vitally important to get what you were willing to commit to, Mr. Chairman.

But again, I also think on a policy basis—just think of it in these terms, folks. If the U.N. were being organized today in San Francisco, would the United States be assessed 25 percent? I do not think any reasonable person would suggest that would be the assessment.

The plan also requires the U.N. make a commitment that the United States will be reimbursed for support we provided for peacekeeping operations, something that is very important to the chairman. It also conditions payment on assurance that the United Nations has no designs on American sovereignty. I believe they have none, but it makes it very clear.

In addition, the plan calls for a number of budgetary and oversight reforms that promise to improve efficiency in both the U.N. Secretariat and the largest specialized agencies. I met with the President of the General Assembly for a couple of hours and a number of people who are part of his staff, and members of the United Nations, and they came to see me, and they said, we do not want any conditions.

I said, fine. What changes do you think have to be made? They outlined changes, and they are the same changes you think should be made.

I said, well, you have choice here. You have a choice of making the changes you think have to be made under the understandable resistance of saying the United States is making us do it, or making the changes on your own and getting no money.

So it seems to me again I would prefer it not be conditioned, like my friend from Indiana, but the truth of the matter is, I would also prefer that we get this behind us and get in good stead with the United Nations and move on.

I thank the chairman for working through this issue on a bipartisan manner. I would also like to take a moment and recognize and commend the efforts of Ambassador Lyman and his team, who probably spent more time in his office and my office and yours as well, with your staff, than they ever intended to do and probably hope never have to do again. Ambassador Lyman, who more than anyone else in the administration—and this will probably get him in trouble, by acknowledging how helpful he was—provided valuable assistance to me and to the chairman over 4 months of very detailed negotiations that have led to this bipartisan agreement.

Let me conclude by saying this. I know a lot of you—and I do not blame a lot of my colleagues on my side, at least—are understandable concerned that this is being presented to them in a way where they are not in on every bit of the negotiation. Well, the truth of the matter is we try to keep everyone informed. The administration was informed. I do not blame them if they—but I do not know any other way to do this. I do not know any other way to do this.

Maybe I spent too much time doing criminal justice legislation. I do not know how it gets done if it does not get done this way. But I want to acknowledge that I respect the views of any of my colleagues who may disagree with the totality of this. But put it in this context. If the Senator and I had come to you all and said, in January, we will be able to present to you a package we can both agree on, that funds the U.N. to the degree the administration says it needs, it reorganizes the United States foreign policy establishment in a way that the administration agrees with 99 percent of, and basically fully funds for the next 2 years authorization for the State Department, I think you all would have thought we were crazy.

Well, that is where we are. Now I urge you all not to let the perfect become the enemy of the good. This is a first-rate move, in my view. This is an important step in the direction of not only making this committee relevant, but, in my humble opinion, of establishing for the first time in a long while a genuine sense of bipartisanship in the conduct of American foreign policy, at a time when much of it is necessarily up for grabs.

And so I thank you, Mr. Chairman. I yield the floor.

The CHAIRMAN. I thank you, Senator. I thank you for the hours that you have spent working with us and with the staff. You have been most helpful and generous.

I note the presence at the table of the distinguished Senator from New Hampshire, Mr. Judd Gregg. He is the distinguished chairman of the appropriations subcommittee which oversees the Departments of Commerce, State and Justice. I think what he may

be preparing to see will be important, in terms of launching consideration of this bill.

I guess it would be accurate to welcome you back, Judd. He was formerly a member of this committee. But I understand why he changed to Appropriations. But his expertise in foreign affairs obviously has served him well in his new role on the Appropriations Committee.

As a matter of fact, to be honest about it, I do not think we would be here today without Judd Gregg's early and active support of the concept of this legislation. He has been a major contributor to almost every aspect of it. Indeed, his tireless work in promoting this legislation signalled, I think, to the administration early on that the appropriators and authorizers could not be divided and conquered, that we were a united front, and that we meant business.

So we welcome you and your comments sir. Welcome home.

Senator GREGG. Thank you, Senator. I appreciate the invitation to be here. I recognize that you have got a lot of work to do. I thank you very much for the chance to speak with you, which was an invitation extended by yourself. I do not want to take a lot of your time. A lot of what I have to say has been summarized by yourself and Senator Biden.

I simply want to make a couple of comments. First, I believe the bill that you are about to mark up is an extraordinary document, that is a very positive step forward for our foreign policy as a Nation. As chairman of the committee on appropriations, which has oversight over a large percentage of this bill in the spending side ledger, it is going to be the courses we are going to follow as we sail down the process of funding the agencies.

Second, I want to speak specifically to the U.N. agreement. This, as has been mentioned, was an agreement which took literally months of intense negotiation. When it started out, I think most of us did not feel we would reach an agreement. But with the strong leadership of yourself, Senator Biden, and especially Senator Grams, whose efforts in this area have been extraordinary, and the imprimatur of get something done that was given to us by Senator Lott, we were able, working closely with Secretary Albright and Ambassador Richardson, to reach this understanding.

And the way I view this understanding is as follows: Basically, what we are going to do—well, there were three issues. The first was we had an issue of the amount. How much do we owe in arrears? The second issue was, what should the benchmarks be? What should we set as the goals that we feel the U.N. should try to obtain? And, third, what would be the payment procedure?

What I think we ended up with was essentially a letter of credit. We are saying to the United Nations, you reach certain conditions and we will pay you. All letters of credit require that obligations be met. So we are going to expect some obligations. But if they meet those benchmarks, we are going to pay. The benchmarks that we have set out are reasonable. They are negotiated benchmarks with the administration and with the understanding of what the U.N. felt it could do and it could not do. They are not unreasonable demands.

If you go down through the list, they involve fairly obvious things, such as that our Constitution will be recognized as sovereign; that there will not be a standing army at the U.N.; that there will not be any tax policy initiated by the U.N.; and substantive things on the area of fiscal management, which I happen to think are very important, because I think the U.N. has serious fiscal management problems; things like an accounting procedure, where we can actually find out where the money goes; a personnel procedure, so we can know who they hire and why they hire them; a procedure for evaluating when they deliver a service, whether it was actually delivered or whether it was not delivered.

And then, third, an issue that has been of significant concern, which is, what is the proper burden for the American taxpayer to pay of the cost of managing the U.N.? And we have reduced that burden, and reduced it, I think, in a reasonable way. We are still picking up a huge percentage of the U.N. burden, but it will not be quite as large as it has been in the past.

And, of course, the bottom line to all this is that I believe, after you have passed your bill and we have put in place the language which spends the money conditioned on the language of your bill, that we will be able to return to our people in our States, our taxpayers, and say yes, the dollars that you are sending to the U.N. are going to be spent effectively. The U.N. is an institution which deserves support. It is an institution which should have a positive impact in international affairs. It is an institution which can have a positive impact on American policy. But we have to make sure that we can say to our taxpayers that they are spending our dollars well.

And the end result of this effort, which has been put together by Senator Helms, Senator Biden, Senator Grams, and Senator Lott, who played a major role, Secretary Albright, and Ambassador Richardson, is to produce a package which accomplishes that goals.

Also, I would like to thank the staff. Because the staff hours on this, as in anything else, were extraordinary. My own staff person, Vas Alexopoulos, spent literally hundreds of hours on this; Tom Kleine, Patti McNerney, Chris Walker, and of course the inimitable and unreplaceable Admiral Nance, who did an extraordinary job of keeping this moving.

So I thank you, Mr. Chairman, for allowing me to come here today and just simply say thank you for the effort you put together, because it is going to make my job as an appropriator a heck of a lot of easier.

The CHAIRMAN. To the contrary, sir, we thank you. We thank you for being here today. Thank you for your comments.

Now, then, my recommendation is that we should proceed through the bill by division, beginning with division A, relating to reorganization. Then we can turn to division B, related to State Department basic authorities. Then division C, relating to reform at the United Nations. If there are no objection, then, I suggest that the committee now begin consideration of any amendments to division A.

Now, on both sides, I believe—I know on my side—I want the experts to be able to answer technical questions that may be raised

about phraseology or procedures and so forth. So I am delegating Tom Kleine to do that job on our side.

Are there amendments to division A?

Senator COVERDELL. I move the adoption, Mr. Chairman.

Senator FEINGOLD. Mr. Chairman, I offer an amendment.

The CHAIRMAN. The Senator will state it.

Senator FEINGOLD. To strike the provisions establishing a new independent Agency for International Broadcasting. Mr. Chairman, if I can proceed?

The CHAIRMAN. Yes, absolutely.

Senator FEINGOLD. Mr. Chairman, I am very concerned about the provisions included in the committee mark that will establish a new independent Federal Agency to administer United States international broadcasting programs. I just do not see how this section of the bill makes any sense, in light of the hard work this committee invested in 1993 and in 1994 in restructuring the U.S. role in overseas broadcasting by consolidating various programs and taking clear steps to move Radio Free Europe and Radio Liberty down the road toward privatization.

In 1994, this committee took the lead in doing something very unusual in Washington. This committee wiped out a Federal Agency. It finally did it. I do not know if it was Reagan or Bush who said that the only thing that is immortal in Washington is a Federal Agency. Well, unfortunately, if we take this step, we are going to prove them right again.

The agency was called the Board for International Broadcasting, or the BIB. We consolidated international broadcasting programs in the Voice of America, along with all the surrogates within a Federal Agency—one Federal Agency, the USIA. We imposed tight fiscal controls on the two programs that were just rife with fiscal abuses and mismanagement, and mandated steps toward privatization for RFE/RL. In fact, we said that Radio Free Europe and Radio Liberty should be completely privatized by 1999. It is Federal law right now that that should happen. We have saved the taxpayers close to $1 billion over a 9-year period by doing this.

At the time the committee took this action, Mr. Chairman, as you well recall, RFE/RL was spending 25 percent of their budget on administrative costs, while the Voice of America was only spending 12 percent on theirs. Extremely lavish government-paid salaries and perks for executives were a deeply ingrained way of life for these programs.

Now, today we have before us a proposal to recreate what appears to be something virtually identical to the old Board for International Broadcasting, an independent Federal Agency, governed by a board of directors. Now, colleagues, this is a road map to return to where we were 3 years ago.

I find it incomprehensible that just as we, under the chairman's leadership, are consolidating our foreign policy apparatus under the reorganization plan in this bill, that we would create a new Federal Agency virtually identical to the one we wiped out less than 3 years ago.

Let me very briefly outline the problems I have with the Biden proposal. Let me just say that Senator Biden and I have been at this for years and understand each other on this. We have agreed

on almost everything since I have gotten here, but this one was our first encounter and it is going to be apparently a continuing encounter.

Senator BIDEN. And hopefully our last.

Senator FEINGOLD. Well, it depends on how it comes out.

But these are my problems. First of all, fiscal abuse. The structure Senator Biden has proposed has historically been a breeding ground for fiscal abuses. These were not just uncovered in 1993. I have a stack of GAO reports and I.G. reports going back two decades, documenting the fiscal abuses that this independent structure generated. Senator Howard Pastore, in his 1976 account of this problem, said the abuse has reached the point of becoming almost scandalous. That is what we put an end to in 1994. We finally put an end to the abuse.

Second, privatization. There was a commitment made in 1994, put into the law, that we would eliminate this thing and completely privatize it by 1999. Why would we recreate an independent agency to administer the grants for RFE/RL for this short period of time? If we recreate this entity, I can assure you, as all Federal programs do, it will find a justification to continue. All the hard work and consensus that was developed around the idea that RFE/RL should be privatized will be under attack.

And, third, there may be attempts to suggest that this somehow is not a new Federal Agency. But I assure you it is simply a new Federal Agency. I find it hard to believe that the members of this committee, many of whom are deeply committed to downsizing the Federal Government and achieving deficit reduction, want to have a hand in creating a new Federal Agency, an agency that not only would be new, but just is not needed. That is exactly what these provisions will do—create an unnecessary new Federal Agency, with all the overhead and bureaucracy and trappings of a brand-new agency.

And I am not alone in this view. I think, if I could, Mr. Chairman, I would like to put a letter from the Taxpayers for Common Sense in the record.

The CHAIRMAN. Without objection.

[The information referred to follows:]

TAXPAYERS FOR COMMON SENSE,
June 12, 1997.

THE HON. RUSSELL FEINGOLD
United States Senate,
SH–716 Hart Building,
Washington, DC 20510

Re: Support Feingold amendment to
State Department reauthorization

DEAR SENATOR FEINGOLD: Taxpayers for Common Sense supports your amendment to the State Department Reauthorization bill that will be marked up today. We urge all members of the Committee on Foreign Relations to support your amendment.

In 1994, Congress passed legislation terminating the Board of International Broadcasting, (BIB), an independent federal agency responsible for administering the grant for Radio Free Europe and Radio Liberty (RFE/RL). In doing so, the legislation mandated that steps be taken to privatize RFE/RL. The legislation also established a Broadcasting Board of Governors within USIA in order to curb extensive internal problems that plagued the programs under the BIB structure.

Contrary to the law and to congressional intent, the committee version of the State Department Authorization Bill that will be marked up today would create a new federal agency strikingly similar to the BIB. Congress terminated this just three years ago by an overwhelming bipartisan vote. The BEB structure fostered rampant fiscal abuses, lavish executive salaries and executive perks, despite numerous GAO and Inspector General reports noting fiscal problems over the course of two decades.

Your amendment would simply strike the committee's language on this issue. TCS supports your amendment because it would prevent creation of a new federal agency. While the budgetary savings may be relatively small compared to the entire federal budget, the principle at stake is large. Can Congress follow through on budget cuts? Finally, your amendment is a step in the right direction at a time when many believe it is important to restore confidence of American taxpayers that U.S. international programs are wise expenditures.

Sincerely,

RALPH DENNARO,
Executive Director.

Senator FEINGOLD. And if I may, Mr. Chairman, everyone should have received a copy of this. It says as follows, in a letter dated today to me, which I have distributed:

Taxpayers for Common Sense supports your amendment to the State Department reauthorization bill that will be marked up today. We urge all members of the committee on foreign relations to support your amendment.

Contrary to the law and congressional intent, the committee version of the State Department authorization bill that will be marked up today would create a new Federal Agency strikingly similar to the Board for International Broadcasting. Congress terminated this just 3 years ago by an overwhelming bipartisan vote. The BIB structure fostered rampant fiscal abuses, lavish executive salaries and executive perks, despite numerous GAO and Inspector General reports noting fiscal problems over the course of two decades.

Your amendment would simply strike the committee's language on this issue. Taxpayers for Common Sense supports your amendment because it would prevent creation of a new Federal Agency. While the budgetary savings may be relatively small compared to the entire Federal budget, the principle at stake is large: Can Congress follow through on budget cuts?

Mr. Chairman, I submit that this is a significant issue, just in general, because of the deficit issue and our efforts on balancing the budget, but specifically, in light of the spirit and the accomplishments embodied in the rest of the agreement, which is in the direction of consolidating, not creating, new agencies in the Federal Government.

Thank you, Mr. Chairman.

Senator BIDEN. Mr. Chairman, let me respond, if I may.

First of all, let us understand what the fundamental disagreement the Senator from Wisconsin and I have. He does not believe, I think it is fair to say—and please correct me, Senator, if I am wrong—that there is a need for private, public or in any circumstance Radio Free Europe, Radio Liberty or Radio Free Asia. That is the fundamental disagreement we have to begin with, number one.

Number two, if they are to exist, the issue is they only have efficacy if they are totally independent. They cannot be the voice of the official policy of the United States in order for them to have any efficacy. That was why Radio Free Europe helped bring down the

Berlin Wall. No one doubted its independence, its journalistic integrity.

So I will acknowledge one thing. If there is no journalistic independence, then there should not be the radios.

So the key here is, if you start off and say there are to be the radios, the radios make sense—if you agree with the Senator, having the radios, public, private or otherwise, makes no sense, then you are right. Because to fold them into the State Department completely eliminates their objectivity in the minds of the people we are trying to get to. That is number one.

Number two, this notion that we are creating a new agency. What we are doing is stripping everything out of an existing agency except for one thing. The only reason we are not stripping it away is because of the need for independence, journalistic independence.

Now, it may seem strange that a guy like me would be spending so much of my time in the last 10 years doing this. But I think, I truly believe, there is as much a need for unfiltered, reliable information, not able to be—not able to be—censored by even our government, to get to a part of the world that will be in chaos and confusion for the next two decades, particularly the establishment of Radio Free Asia, which so many of you supported me on.

Now, this notion that it undermines privatization. I agree with my colleague when we reached a compromise a year and a half ago or whenever it was that we should work toward privatization. But, quite frankly, that is more consistent with my notion of its independence.

Let me ask you the rhetorical question: How many of you think there is a greater chance of it being privatized if it sits out here by itself with that mandate attached to it or if it is subsumed into the State Department with USIA? What do you think, folks? Where do you think it is more likely to have a shot at being privatized and having the push to privatize it?

This does not in any way change the directive by 1999. Kevin Klose is here. I do not want to take up the committee's time, but he is prepared to testify and tell you about the efforts toward privatization.

The third point—and there is much more to say, but we have many more things to cover I acknowledge, and I am not in any way trying to trivialize the amendment—it is very important, and it is very important to me—but this notion that we are going to put in place this sort of spendthrift cesspool that is going to go out and do all these things now. The truth of the matter is this is a broadcasting board we put in place 3 years ago. It has a direct line responsibility, answering to—in terms of connection to—we handed out this little organizational chart for you here—to the State Department. The State Department has, as a permanent voting member, the Under Secretary of State, who will give policy guidance on that board, but is only one of the board members—only one of the board members.

Now, the idea that this broadcasting board of Governors, which, by the way, all the savings my friend has acknowledged we have accomplished, through his leadership on this, were accomplished by this board—these are the folks that went out and did it. These are

serious people. They moved the operation from Germany to Prague. They modernized it. They consolidated. They cut.

I love my staff, but I drive them crazy and they drive me crazy. They want me to point out that this says dotted line, not straight line. I apologize.

But, at any rate, they are the ones—they are the ones—the board are the ones that initiated these savings. These are serious people. This is not a boondoggle.

And the last thing I will ask you: Do you think it is harder to hire, do you think it is harder to hide, do you think it is harder to waste the taxpayers' money sitting within the gigantic bureaucracy called the State Department or sitting out there all by yourself with my good friend from Wisconsin, with his—as my kids would say—spyglass, watching everything they do?

So I would argue the following, and conclude with this. One, privatization is more likely keeping it where we have it in the bill. Chicanery relating to spendthrift tendencies is less likely with it sitting out there in the cold light of day rather than buried in the bowels of the State Department. Three, it is absolutely critical, if you think Radio Free Europe, Radio Liberty and Radio Free Asia has any relevancy, it is absolutely critical that they maintain their journalistic independence. They cannot do that, with all due respect to a Secretary of State I love and future Secretary of States who I may, it cannot do that within the State Department.

So the fundamental difference my friend and I have—and we had this conversation yesterday—is, at its root, in addition to saving money, which this has become the most fiscally conservative guy I know from the time he got here—I do not know, I mean this is an unusual guy—but the root problem is not just saving money, it is you do not think these Radios make any sense any longer, do not have any relevance any longer. So, for all those reasons, I would urge my colleagues to vote against the amendment if and when we get to that vote.

The CHAIRMAN. I agree with the Senator, and I find it somewhat novel that I am indirectly or implicitly being charged with favoring the creation of a new Government Agency.

The fact is that this provision does not create a Government Agency. What is does, as Senator Biden has so eloquently demonstrated, it simply keeps a current function of USIA—namely, the freedom radios—separate from the Department of State. No new missions are created. No new bureaucracies are established. We simply maintain the independence and editorial integrity of the already existing radios.

Now, I understand the arguments that the Senator has made. I think I made some of them myself when I introduced the reorganization in 1995. But then I was approached by a number of distinguished Americans who have been active in this field—people like Jeanne Kirkpatrick, who made the case for their independence, and Steve Forbes, and others. I took note then, as I do now, that the clamor for maintaining the independence of the radios is coming not from an entrenched bureaucracy opposed to reforms, but rather from the very conservatives who have championed reforms.

So I think most Senators will agree that, thus far, freedom radios have served us well, as Senator Biden has said. So well, in fact,

that we recently created a new Radio Free Asia to broadcast to the oppressed peoples of mainland China and Tibet and East Asia. At the behest of Senator Brownback, we are, in this very bill, creating a new Radio Free Iran, with a similar purpose, with offsets of course.

So I thank the Senator for his comments, and I join him in hoping that we will defeat this amendment.

Senator BROWNBACK. Mr. Chairman.

The CHAIRMAN. Yes.

Senator BROWNBACK. Thank you very much.

I want to reemphasize a point, if I could, and make certain that—I know the chairman is with this—that we are going to continue the privatization effort on those entities within the radio free area that we can, at the same time that we are adding into areas where we think we really—we can go again and do and accomplish again, with these new radio messages, into areas what we have already accomplished in some others areas that we ought to be privatizing.

The CHAIRMAN. Exactly.

Senator BROWNBACK. And that the chairman and I think the rest of the committee is committed to privatizing. I hope that message goes through to the people that are operating these radio free operations.

The CHAIRMAN. I thank the Senator. I can assure him that will be done.

Senator FEINGOLD. Mr. Chairman.

The CHAIRMAN. Yes, sir.

Senator FEINGOLD. May I respond?

The CHAIRMAN. The Senator is recognized.

Senator FEINGOLD. This is exactly how they told me it would go once I got out here. Eliminate an agency, but then they would figure out a way to give it a different name, recreated a couple of years later, and you are off to the races again. This is a boondoggle. This is a boondoggle that is going to be recreated.

Senator Biden says let it sit out there in the plain light of day and not in the State Department and see what happens. Well, we saw what happens for 20 years when it sat out there by itself. Salaries exceeding $200,000 and $300,000 a year for executives in Munich. This committee worked long and hard, with the support of the chairman and others, to finally say enough is enough, there needs to be accountability.

The only accountability that is left after this agreement is what Senator Biden correctly said—one guy from the State Department is going to sit on a board—one vote out of nine. There is no direct budgetary responsibility to the USIA, which exists under the current agreement. Under Senator Biden's provision, this organization does not have to go through the USIA for their budget. They go straight to OMB. A separate, new pleader in the Federal Government for Federal dollars.

And let me correct something Senator Biden said. I never said I was against any form of RFE/RL. If it wants to privatize and compete against CNN and BBC and the private, free enterprise market to do a better job, I am all for it. Why should we subsidize

it at this point? What is the justification for creating a brand-new agency that will do this?

Senator BIDEN. Freedom.

Senator FEINGOLD. Oh, it is government-subsidized freedom.

Senator BIDEN. I do not care; it is freedom.

Senator FEINGOLD. Yes, well, the information I have gotten from a number of my colleagues here is they think other entities that are not government funded are able to do this and are doing it well. But the point is that there is no credibility to the notion that this is not a new Federal Agency. You can put as many words around it as you want, but it is. It is appointed by the President. It is accountable to no one but the President himself. I got a feeling he has got a few other things to do than to micromanage this deal.

So, my colleagues, I assure you, I certainly will want it taken up here and hope we can defeat it here, if not on the floor. But this is just a classic example—a classic example—of where the rhetoric does not meet the reality. We finally hunkered down on something, consolidated, and saved. I thank the Senator from Delaware for acknowledging the savings that came out of this.

You know, you made the comment that this agency worked hard and made the savings. They did not make the savings. They were mandated to by Congress. We cut their budget to $70 million a year and they had to. It was not out of the goodness of their heart.

So the fact is here, Mr. Chairman, that this is reversing course in a way that it is inconsistent with what I think is really a commendable direction of your overall proposal. I think it is regrettable, and I will certain revisit it as many times as I need to in order to make sure that we do not make this mistake and start moving in the opposite direction of why so many of us came here in the first place—to bring this government spending under control and to have a little rationality to the organization of the government.

The CHAIRMAN. Senator Coverdell.

Senator COVERDELL. Senator Feingold, an interesting debate here. Are you asserting that the mandates and construction in your initial work is deemed obviated by the plan that is supported by the chairman and ranking member? In other words, the financial mandates and construct of your original work, is it not still in place?

Senator FEINGOLD. I am suggesting—a portion of it, of course, is still there. We still have the same financial limits that were there before, and I do not dispute what Senator Biden has said on that. What I do dispute, however, is the notion that we are not creating the scenario where it will happen again. In fact, I think we are setting up the road map, with no accountability, with a direct opportunity to plead for funding directly with the OMB. What you are doing is essentially creating a Federal Agency that cannot be eliminated.

And I think what will happen is that the very limits that we have established will come off, just as I notice the slippage of the commitment to consolidation on this very committee that was so clearly identified a few years ago, when we did require that this go under the USIA, on a 15 to 4 vote.

Senator KERRY. Mr. Chairman.

The CHAIRMAN. Senator Kerry.

Senator KERRY. Mr. Chairman, having chaired that component of what happened 3 years ago, I must confess that I am somewhat baffled, and I share the feelings of the Senator from Wisconsin. This is the 1993 committee report on what we did. It says the committee bill incorporates, with some modifications, the administration's draft bill. This was the administration. I mean, are they signing off on this? It is a reversal of 3 years of policy if they are.

Because they said, the administration's draft bill, to consolidate the broadcasting activities of USIA and the Board for International Broadcasting. We consolidated Radio Free Europe, Radio Liberty, Radio and TV Marti, Voice of America, et cetera, for a lot of different reasons. One of the reasons was that it was out of control. I mean we had spending abuses. We had extraordinary salaries. We had lack of management. So we brought it in to get control of it.

We mandated that. They did not do that because they were an independent agency. It was because they were an independent agency that we saw fit to rectify the problem. The consequences of our action was the following. We created the board and we put the board into USIA.

Now, that same board—I do not know what the administration's consolidation plans are, but USIA is now going into State. So what is all this malarkey about independence? I mean you are going to have the USIA board now in State. The board is going to be still appointed. They are still going to seek money.

I mean if we are kidding ourselves that the United States of America thinks that because we overtly set up some separate entity, quote, but we are funding it every year, and they are competing for appropriations with everything else in the budget, that we have created independence of editorial, I mean that is ridiculous. No more than you can guarantee it in its current form, which is——

Senator BIDEN. Will the Senator yield on that point?

Senator KERRY. It is one of the things that we debated. Let me just finish. It is what we debated 3 years ago. We all worried about whether or not they could be independent within the State Department. We set up a structure that, at that point in time, we thought created sufficient independence, and the committee signed off on it. We saved $240 million over 4 years because we did that.

Now, all of a sudden we are coming back in an age where the BBC is the most important and single best coverage in all of Asia, where you have got faxes—the fastest-growing form of communications in Asia today is wireless. They cannot control that, and you have got satellite television and a host of other things with dishes more available than ever before. Go over to China, you will see them.

And we are sitting here worrying about setting up some kind of cold war construct again to go back and expose ourselves to all those abuses. I do not know what the rationale is, I honestly do not.

Senator BIDEN. Mr. Chairman, let me just take 120 seconds to respond to that. Number one, I think you make the best argument,

John. You do not think these radios are necessary, whether they spend money or do not spend money, either funded or not funded.

You make the argument about BBC, and satellite dishes, and you may be right. That is what we have a fundamental disagreement on. But the notion that they can maintain independence and still be funded by the Federal Government, there is a little thing called Radio Free Europe. It worked that way for 50 years. For 50 years it was funded by the Federal Government, and guess what, the rest of the world treated it like it was. It had journalistic independence.

Senator KERRY. That is precisely my point, Senator. If you have it, one way or the other they still know it comes from the United States of America. It is not because of how it was funded. It is because of either the integrity of the news, the reliability—it is the only thing they get.

Senator BIDEN. It is the integrity of the process.

The Secretary of State cannot pick up the phone and could not pick up the phone and tell the editorial board at Radio Free Europe do not put out that editorial. Everybody in the world knew that, and they still know that.

They cannot do it now, but if you put it within the State Department, and let us make it clear, we set up this new board within an existing independent agency called USIA, which was not part of the State Department, so it was never part of the State Department, and in the reorganization efforts it was never intended to be part of the State Department.

Now we have stripped away all the stuff that it need not be independent and put it inside the State Department and left the part that should be.

Again, this is like beating a dead horse here, but the bottom line here is, keep in mind, listen to what we all say here. The question is, are these radios relevant and independent? Does it make any sense, or do we not need them, and count on—which is a legitimate argument—CNN World News and BBC and the rest, and we do not need to be in the game.

I think we need to be in the game. I think they make sense. Nothing changes. That is my answer to my friend from Georgia's question about the mandates that we have in terms of accountability for this board, any more than we did a year-and-a-half ago. I still think they are relevant. If you do not think they are relevant, then you should vote with my friend. If you do, then I think you should vote with us.

Senator KERRY. Let me just say, Mr. Chairman, the vote is not over relevance. They are relevant. That is why we kept them. The vote is not over relevance. The vote is over control with respect to spending, and whether or not you believe that where it lands distances it sufficiently from the fact that we are funding it.

If you think independence comes from creating a separate agency that will compete for funds, but still gets funded by us—if you think it gets independence from that, fine. In my judgment, there is no difference, except that you are creating an entity that will compete for funds and take us back to the era of lack of control.

This is about Government efficiency. It is about size of Government. It is about how we spend money. That is the vote.

Senator FEINGOLD. Mr. Chairman, one quick other point, if I may. Let me just remind my colleagues that in addition to this notion that we are going to have RFE/RL and this board out there for just a couple of years, when it is supposedly going to be privatized, after we do all of this, the Voice of America is going out there, too. The Voice of America has been under the USIA.

Senator BIDEN. But not the State Department.

Senator FEINGOLD. We are moving the USIA into the State Department because we want consolidation. That is not what we are doing here. We are taking not only Radio Free Europe, what is left of it, but we are also taking the Voice of America and just leaving it hanging out there without that.

Senator BIDEN. Senator, you are making the point, if I may. You are making the point. Our reorganization effort, if we wanted to do what you and the Senator from Massachusetts have done, when we reorganized we would have put it in the State Department.

We chose not to, and all I am doing is stripping away some of the things that were part of USIA and putting them in the State Department and keeping the radios where they were and where the reorganization called for them to be, outside State.

Senator FEINGOLD. That is inconsistent with the very purpose of the agreement.

Senator BIDEN. You know, Mr. Chairman, there used to be an expression that Ralph Waldo Emerson used. He said foolish consistency is the hobgoblin of little minds. I just think where we are now, this is getting to be foolish consistency.

The CHAIRMAN. We will leave the little minds out of it.

Senator BIDEN. I did not mean it that way. That sounded—that came out the wrong way.

That is why I do not do radio.

The CHAIRMAN. Are we ready to vote? Would the Senator want a roll call vote?

Senator FEINGOLD. I sure do.

The CHAIRMAN. The clerk will call the roll.

The CLERK. Mr. Lugar.

Senator LUGAR. No.

The CLERK. Mr. Coverdell.

Senator COVERDELL. No.

The CLERK. Mr. Hagel.

Senator HAGEL. No.

The CLERK. Mr. Smith.

Senator SMITH. No.

The CLERK. Mr. Thomas.

Senator THOMAS. No.

The CLERK. Mr. Grams.

Senator GRAMS. No.

The CLERK. Mr. Ashcroft.

Senator ASHCROFT. No.

The CLERK. Mr. Frist.

Senator FRIST. No.

The CLERK. Mr. Brownback.

Senator BROWNBACK. No.

The CLERK. Mr. Biden.

Senator BIDEN. No.

The CLERK. Mr. Sarbanes.
Senator SARBANES. Present.
The CLERK. Mr. Dodd.
Senator DODD. No.
The CLERK. Mr. Kerry.
Senator KERRY. Aye.
The CLERK. Mr. Robb.
Senator BIDEN. No by proxy.
The CLERK. Mr. Feingold.
Senator FEINGOLD. Aye.
The CLERK. Mrs. Feinstein.
Senator FEINSTEIN. No.
The CLERK. Mr. Wellstone.
Senator WELLSTONE. Aye.
The CLERK. Mr. Chairman.
The CHAIRMAN. No.
The CLERK. Mr. Chairman, the vote is 3 yeas, 14 nays, 1 present.
The CHAIRMAN. I thank the clerk. Are there further amendments?
Senator COVERDELL. I move the adoption of section A as amended.
Senator BIDEN. I second that, Mr. Chairman.
Senator SARBANES. Can I be heard on that? Are we going to vote on each division as we go?
The CHAIRMAN. Yes, sir.
Senator SARBANES. I am opposed to this division. I do not think that a reorganization plan should be forced on an administration which has indicated that it is willing to undertake a reorganization and is very much in the throes now of trying to plan it, and I think the administration ought to have the opportunity to lay out its reorganization plan to the Congress.
Now, if we differ with it, we may then find ourselves imposing a reorganization of the executive branch, which the executive branch does not want, particularly a reorganization in the very area that is generally regarded as primarily an important Presidential responsibility under the Constitution, but I think an administration—and I took this attitude with both the Reagan and the Bush administrations—ought to have the opportunity to shape and frame their own reorganization, submit that to the Congress.
I would give it great weight. I would not regard it necessarily as definitive, but I would give it great weight, and I think the Congress, if it is going to act on reorganization of the foreign affairs agencies of the executive branch of our Government at a minimum should have before it the blueprint that the executive has proposed.
We are not at that point. Therefore I oppose this.
Senator BIDEN. Mr. Chairman, just a 30-second response. The administration does not agree with every piece of this reorganization, but the administration is aware of every aspect of this reorganization. They have been consulted by me and by the chairman.
There is only one place I am aware that the administration does not and would rather there be change in it, and the truth of the matter is that this is the bulk of everything they have agreed to.
I have had private, personal, public discussions with the Secretary, with the others in the State Department, with the USIA,

with AID, with ACDA, and all the leaders of each of those organizations. They would all have a preferred view.

On principle they would rather not have us do anything, but knowing that we are going to do something they have laid out an outline the President sent to us. This is consistent with the outline they sent to us.

One change that they would like is a change, and I on a policy basis disagree with them on it, and it is whether or not the Regional Assistant Secretaries, who are part of policy decisions made by AID along with the Secretary, they would rather not have that interjected in there. I disagree with them on policy grounds, but let us make it clear, this is consistent with the framework laid out by the President.

I have a letter here—you have a letter here, Mr. Chairman, from the Secretary of State, and it says, internal deliberations are underway to develop a detailed reorganization plan—excuse me. Internal deliberations are underway to develop a detailed reorganization plan consistent with the President's decision, implementation of which will require action by the Congress.

As a matter of principle, the administration supports legislation which provides the President maximum flexibility and does not prejudice the outcome of our internal deliberations, and to that end has shared proposed language with this committee.

The administration also supports a reorganization along the lines of H.R. 1757, the foreign relations authorization bill passed by the House of Representatives. The draft of the committee bill most recently provided to the administration, however, goes well beyond the President's plan in several instances, and we cannot support where it goes well beyond, but then they go on to point out that the essence of what we have done is consistent.

But I want to make one other point. Even if it was not, the administration has a very difficult decision. This is a package. In order for me to get my good friend here to move that number on the U.N. to where it is, this is part of the deal. It is a policy standpoint. It makes sense in my view, but beyond that, we all talk about ideally what we would like. This is part of an overall package, three pieces here, and so—well, anyway, I think it is a good reorganization plan, Mr. Chairman.

The CHAIRMAN. Senator Kerry.

Senator KERRY. Mr. Chairman, just very quickly—and I am not going to delay the vote, but we worked long and hard through the Arms Control and Disarmament Agency to buildup expertise in the analysis of treaties and compliance with treaty requirements as well as legal analysis and advice, which has paid off on many occasions.

The risk of proliferation right now, though it does not get the focus that many people think about, is as significant as it has been in a long time, and I am talking about all kinds of proliferation—mass destruction weapons, ballistic cruise missiles, other threatening weaponry.

I am concerned that we do not lose that expertise in the process of this reorganization, and I think our security depends on that. Now, I explored through staff with you the possibility of having some kind of an amendment to guarantee that. You preferred—and

I wanted to retain it, obviously, within the Under Secretary for Arms Control and International Security which we establish.

I would have preferred to have done that statutorily. You want to do that in report language. I respect that, and I am pleased that you are willing to accept fairly detailed report language which will help make that happen.

I would like, once we go to conference on this, Mr. Chairman, to at least have your support and help in trying to guarantee that you would do all you can to make sure that it is included in the conference report.

The CHAIRMAN. Very well.

Senator SARBANES. Mr. Chairman.

Senator KERRY. By very well, does that mean very well, yes you will, Mr. Chairman?

The CHAIRMAN. Yes.

Senator SARBANES. Mr. Chairman, I just want to read again from the letter that Senator Biden quoted, because I want to pick up on the last sentence as well. The administration also supports the reorganization provisions along the lines of H.R. 1757, the foreign relations authorization bill passed by the House of Representatives yesterday.

A draft of the committee bill, meaning this committee, most recently provided to the administration, however, goes well beyond the President's plan in several instances which we cannot support. We urge the Senate to adopt an approach similar to the House, and it seems to me that in a matter of this sort we should have the benefit of the administration worked-out reorganization plan before we move to, in effect, impose a reorganization plan. Therefore, I oppose division A.

The CHAIRMAN. The chair feels there ought to be a roll call vote on this. If there is no further debate, the clerk will call the roll.

Senator DODD. Mr. Chairman, just a moment. I am going to support Senator Sarbanes on his motion, not because I disagree with reorganization, but I do agree with his underlying concept that the executive branches, be it this administration or others, need to be able to function without being micromanaged. We hear this consistently in the context of our debate about foreign aid generally.

I do not disagree, and I applaud the efforts being made here, but I think a message about whether or not we are going to do this all across the Federal Government runs a high risk of mismanagement in the final analysis, but I applaud the efforts of the chairman and the Ranking Member.

The CHAIRMAN. Very well. The clerk will call the roll.

The CLERK. Mr. Lugar.

Senator LUGAR. Aye.

The CLERK. Mr. Coverdell.

Senator COVERDELL. Aye.

The CLERK. Mr. Hagel.

Senator HAGEL. Aye.

The CLERK. Mr. Smith.

Senator SMITH. Aye.

The CLERK. Mr. Thomas.

Senator THOMAS. Aye.

The CLERK. Mr. Grams.

Senator GRAMS. Aye.
The CLERK. Mr. Ashcroft.
Senator ASHCROFT. Aye.
The CLERK. Mr. Frist.
Senator FRIST. Aye.
The CLERK. Mr. Brownback.
Senator BROWNBACK. Aye.
The CLERK. Mr. Biden.
Senator BIDEN. Aye.
The CLERK. Mr. Sarbanes.
Senator SARBANES. No.
The CLERK. Mr. Dodd.
Senator DODD. No.
The CLERK. Mr. Kerry.
Senator KERRY. Aye.
The CLERK. Mr. Robb.
Senator BIDEN. Aye by proxy.
The CLERK. Mr. Feingold.
Senator FEINGOLD. No.
The CLERK. Mrs. Feinstein.
Senator FEINSTEIN. Aye.
The CLERK. Mr. Wellstone.
Senator WELLSTONE. No.
The CLERK. Mr. Chairman.
The CHAIRMAN. Aye.
The CLERK. Mr. Chairman, there are 14 yeas and 4 nays.

The CHAIRMAN. We now move to division B, which is subject to amendment. Tom Kleine tells me that several Members have proposed changes on both sides which have been accommodated, and he knows of no further amendments.

Senator BIDEN. Mr. Chairman, I think most of the concerns raised by the Democrats have been incorporated. I am not aware of any amendments on division B.

Senator SARBANES. Mr. Chairman, could I ask some questions about division B, the meaning of some of these sections.

The CHAIRMAN. Sure.

Senator SARBANES. First of all, in section 1166 about aliens who aid international child abductors, and it says that no one shall be admissible who is a spouse or a relative of such an alien.

Now, the question I have is, often the fight is between the spouses. If one spouse takes a child and goes back to country X, and the other spouse goes to country X in order to get the child back, as I read this section that person would then be inadmissible, since it says—there is no qualification on this, is that correct?

The CHAIRMAN. I believe that is correct. This is Senator Feinstein's contribution. I would like her response.

Senator FEINSTEIN. Mr. Chairman, if I may try and respond to the Senator from Maryland, this amendment would deny visas to individuals who assisted in carrying out international child abductions, who provide safe haven and material support to child abductors overseas, or who are immediate family members of a child abductor.

The bill was inspired by the case of one Patricia Roush, whose two children were abducted by her ex-husband.

Senator SARBANES. I am not really questioning the section, except for what I perceive to be either a mistake or an oversight, or if it is not I would like to be reassured on it, and that is, go to paragraph 3, which says, a spouse of the alien who is an abductor.

Now, often these abduction cases involve a conflict between the spouses. Now, would that spouse then be inadmissible if he or she left the country in order to claim their child?

Senator FEINSTEIN. This is not intended to target American spouses. It is intended to target the spouse in another country who has stolen the child.

Senator SARBANES. Let us say you have two people from country X in the United States, resident aliens. One of them takes the child and leaves the country and goes back to his country. The wife then goes after the child to try to get the child back. As I read this, the wife would then be inadmissible to come back in.

Senator FEINSTEIN. No, that is not correct. It is intended to target the second spouse. This is a situation where there is not a binding marriage, but the former spouse abducted the child.

There is a court order. There is no extradition treaty with the nation. The individual has tried—the woman has tried to get her children back for 10 years, has not been able to do so. Our Ambassador tried to do this informally, found it began to bring pressure on the family, and worked, but could not continue to do it because there was no law.

So we are now presenting a law whereby we could add some pressure to people who abduct their children against court orders and move to another country, remarry, and like to keep coming back and forth to our country. They would not be able to come back.

Senator SARBANES. I want to try to get the focus on the issue I am raising, because I do not disagree with the purpose or the objective of the section. What I am concerned about is, the section says on pages 33 and 34, any alien who, and then paragraph 3 says, is a spouse, is a spouse of an alien described in clause 1, that is the spouse who has engaged in abduction, but any alien who is a spouse of such a person would be inadmissible.

Senator FEINSTEIN. I think this is a drafting error. Let us see what we can do with it, if you will give us time. It should exclude former spouses, and let us take care of that, if we may.

Senator DODD. Why do you not just leave it to the discretion of the Secretary, and that might cover the kind of cases you want.

Senator FEINSTEIN. That is fine with me.

Senator SARBANES. Well, I think we should try to work this out.

Now, Mr. Chairman, if I could ask a further question about, would someone tell me why we are withdrawing from the Interparliamentary Union? I am not pressing that. I would just like to know the reason. That is section 1213.

Senator LUGAR. Can either a Senator or staff offer an answer?

Mr. KLEINE. Senator, this was a recommendation from the Office of the Secretary of the Senate. I think it is a reflection of the concern that there has not been a great deal of participation in the Interparliamentary Union, and we have been contributing over a number of years, and so the provision would limit the contribution

to $500,000 a year or withdrawal, but it is language that is crafted on language that was provided by the Secretary.

Senator SARBANES. How much do we pay now, then?

Mr. KLEINE. The request was $1 million, and the estimate for 1997 was $740,000.

Senator SARBANES. So we are just going to impose a flat ceiling on this?

Mr. KLEINE. Yes, sir.

Senator SARBANES. I take it the IPU works it out on some sort of rational basis, one assumes.

Mr. KLEINE. Yes, sir. That is our understanding from the Office of the Secretary.

Senator SARBANES. We are not going to accede to that? We are going to put it below that?

Mr. KLEINE. That is right. It caps our contribution at $500,000.

Senator SARBANES. So this is an instance in which we are part of an international organization which sets the dues but we are in effect going to set our own dues, regardless, is that correct?

Senator LUGAR. Is there any other view from anyone involved in the drafting?

Senator Sarbanes, have you concluded your questions?

Senator SARBANES. I guess so. I cannot get the answer at this point.

Senator BIDEN. Senator, I can give you an answer. This was something insisted on by the Majority, and it is part of the compromise. That is the answer.

Senator SARBANES. Well, I do not think that is the answer, or that ought not to be the answer. There ought to be some rational reason.

Senator BIDEN. The rational reason, and I happen to agree with you, but the rational reason is that there is a fairly widely held view on the other side of the aisle that these organizations are not of very much consequence or use, and the practical matter is I think, if given the opportunity, they probably would not exist.

The question comes down to whether or not——

Senator SARBANES. You mean the U.S. participation would not exist.

Senator BIDEN. Obviously, we cannot unilaterally cease and desist, but I think the Senator is right. I do not think this is a good idea, but this is a part of about 4,000 things that were part of an overall compromise.

Senator SARBANES. Could I ask about section 1164, on the inadmissibility of members of former Soviet Union intelligence services? My understanding is that there have been occasions when these aliens have come in for conferences, or in a sense almost debriefing when it serves our purposes that they come. Now, this would be inadmissible?

The CHAIRMAN. State your name.

Mr. BIEGUN. My name is Steve Biegun. I am with the Senate Foreign Relations Republican committee staff.

Senator BIDEN. The answer?

Mr. BIEGUN. I am sorry, I did not hear the question.

Senator SARBANES. The question deals with section 1164, the inadmissibility of members of former Soviet Union intelligence serv-

ices. They are inadmissible to the country under the section, correct?

Mr. BIEGUN. Correct, sir.

Senator SARBANES. My understanding is, there have been instances in which such former agents have come in to participate in conferences.

In fact, I have here the cold war international history project where they were brought in, and we have been able to get out of them their version of what transpired, and that has turned out to be helpful information and knowledge we would like to have.

This section would preclude that from happening, right?

Mr. BIEGUN. What this does is, it puts reciprocal treatment on Russian intelligence service former officers which is being given to our intelligence services currently, our retired officials from our intelligence services who are seeking to get into Russia.

It basically is a reciprocal measure, and would prohibit that kind of activity. The intention of this provision is to elevate this to the State Department to hopefully find some balanced approach.

Senator LUGAR. Was the Intelligence Committee consulted on this?

Mr. BIEGUN. Yes, and they had no objection.

Senator LUGAR. I am surprised. My own view is that we have utilized these people frequently in conferences, and, as Senator Sarbanes mentioned, conceivably this is a unilateral decision by the Foreign Relations Committee. But I am not certain the precise origin of the idea and why it appears in this particular text.

Senator SARBANES. Is there any further explanation? There is no exception or waiver authority, correct? Is that correct? There is no waiver or exception authority?

Mr. BIEGUN. That is correct.

Senator SARBANES. So they would just be precluded altogether. All right.

Senator BIDEN. Mr. Chairman, I have a question. The points raised by Senator Sarbanes and by Senator Lugar I think are valid, as you know.

I wonder whether the chair—and I will stay with the commitment of this bill, but I wonder whether the chair would consider at least making it discretionary and maybe put the discretion for allowing these folks in if, with the Director of the Central Intelligence, or the State Department, to allow those circumstances, because they do exist, as we all know. I have served on the Intelligence Committee. They do exist where there is efficacy and usefulness, and where our intelligence people would like these people in.

I would like you to consider the possibility of language that would allow an exception to be made by whomever you think appropriate. I would think the Secretary of State, but with the Director of Central Intelligence, or someone you had confidence in, that would know whether it was in our national interest to allow that to occur.

The CHAIRMAN. I have no problem with that.

Senator BIDEN. Well, I would so move, that it be made discretionary, Mr. Chairman, and with the permission of the Senator

from Maryland, run the language by him to see if he approves, and you approve, and otherwise bring it back to the committee.

But if I understand it we would make it discretionary subject to you seeing the language and approving the specific language.

The CHAIRMAN. Very well.

Senator SARBANES. I have one other question, or maybe two, on the reporting of foreign travel by United States officials.

Now, as I understand this, no officer or employee of the U.S. executive agencies can travel abroad unless prior to the commencement of the travel the individual submits a report to the director—I am not sure which director that is—that states the purpose, duration, and estimated cost of the travel, is that correct?

Mr. KLEINE. Yes, sir, that is correct, and the director is the Director of the Office of International Conferences of the Department of State, and the purpose of this provision is to capture overseas travel by U.S. executive branch officials, to see what the cost is associated with that, but it also exempts out travel for intelligence purposes, for purposes of military deployment, it exempts travel by the President and Vice President and people associated.

This was a result of a hearing that the chairman held looking at international conference travel, and the realization that there was no comprehensive data on the cost associated with all overseas travel by U.S. executive branch officials.

Senator SARBANES. Of course, this is not limited to international conferences. It says, or engaging in any other foreign travel.

Let me just try to be specific. I take it under this provision, when Dennis Ross goes to the Middle East he has to file such a report.

Mr. KLEINE. Under this provision he would have to file a report on the cost and duration, the purpose of the trip. If it is an international emergency or if the President needs to deploy him overseas there is a period during which he can file that report after he returns as well.

Senator SARBANES. Where is that stated? This says updated report, not later than 30 days after the conclusion of any travel for which a report is required they shall submit an updated report. But this language says that they shall—prior to the commencement of the travel shall submit a report.

When Kissinger as a national security advisor went from Pakistan to China, I take it he would have had to submit a report under this provision?

Mr. KLEINE. No, sir. There is an emergency waiver there which states—this is on line 1 of page 7, and it says, shall not apply if the President determines an emergency or other unforeseen event necessitates the travel and thus prevents a timely filing of a report, in which case he would file the report 30 days after returning.

Senator SARBANES. Well now, suppose, you know, you are going to do it. You just want to keep it as secret as you can. Some of these visits—suppose Dennis Ross goes to Oslo, to use an example. He would have to file a report before he went, is that correct?

Mr. KLEINE. He would file a report before he went, or after he went if the President determined it was an international emergency. If it was intelligence-related travel—the intent of this is not to hamper diplomatic activity, but rather to capture the expenses associated with the executive branch travel.

Senator SARBANES. I guess the point I want to make is, if you want to get at international conferences, which was the first answer I was given, then that is one thing, but to then expand this to the point that it has been expanded it seems to me is going to cause a tremendous amount of mischief.

Senator KERRY. Not to mention the paper addition act.

Senator FEINSTEIN. Mr. Chairman, I think that is a good point. Essentially what you are asking, or what the bill is asking is everybody telescope their intent, which might be a mistake. It may be enough just to have a report when the individual returns.

Mr. KLEINE. Senator, we can modify the language. The objective is to capture the cost associated with all executive branch travel.

Senator KERRY. Do you not capture that in the budget? You have got accountability every year. If you do not like—I mean, you are going to drown people.

Senator DODD. Why don't we just have them check with the Foreign Relations Committee?

Senator KERRY. After all, they come to us every year for a budget.

My question is whether or not we do not have sufficient capacity for oversight at the current moment with respect to travel.

The CHAIRMAN. I do not think we do, and we have agreed to modify it to the extent that it has been stated. I have no problem about the executive branch, just as I have no problem about the U.S. Senate and the travel that goes on in this place, and I have some problems with the extent of how much it is, and I think the American people do, and I think the same thing applies to the executive branch.

If the Senator is suggesting it is too much to ask to have a record made——

Senator KERRY. Mr. Chairman, I am absolutely not. I am all for having a record made.

The CHAIRMAN. What is the Senator's objection to having it made when he gets back?

Senator KERRY. I believe there are records of all trips, and what we are creating is the reporting on top of the reporting.

The CHAIRMAN. Well, we will modify to that extent, and I do not want to go any further unless I am instructed to do it. We will go to a roll call vote of this committee if we do not have a specific suggestion.

Senator KERRY. Mr. Chairman, I certainly welcome, as does Senator Sarbanes, the modification. I just think we might want to, between now and going to the floor, relook at the issue of what is accessible to us now, and I would respectfully suggest we have the opportunity to have a report any day, any week, on any travel, and we have obviously the overall budget at our disposal.

The CHAIRMAN. I think we have agreed to that.

Senator KERRY. Mr. Chairman, with your permission, Mr. Chairman, could I ask Secretary Larkin to just come to the table for a moment? I wanted to ask a couple of questions before we vote on section B, if I can, just to understand myself.

The CHAIRMAN. We might want to ask her a question, too.

Senator THOMAS. Mr. Chairman, what did we do with the travel matter? I do not think I understood how it was disposed of.

The CHAIRMAN. It has not been disposed of yet.

Senator KERRY. Mr. Chairman, my question is not with respect to the travel issue.

Senator BIDEN. Mr. Chairman, on the travel matter, is it appropriate to suggest that we ask the staff to sit down and see whether or not we can reach the objective which you seek to reach without doing the damage that potentially could be done? The larger point is even if after the fact a travel voucher is submitted on an emergency, it may be a travel voucher that the administration would want anyone to know existed other than in their internal records because they did not want anybody to know they were there because they met with Yasser Arafat in such and such, or they met with whomever. So I do not think that is the Senator's intention.

The CHAIRMAN. No, it is not.

Senator BIDEN. I would respectfully suggest what we try to do is before this goes to the floor see if we could accommodate what I think we are kind of all in agreement on.

Senator COVERDELL. Senator Biden, I think if we are going to take the course of refinement here that the staff should look at the fact that this data is collected already.

Senator BIDEN. That is my point.

Senator COVERDELL. The data is collected. There is nobody traveling in the executive branch for which there is not a record of the travel. It is rather elaborate, so compilation is what is missing. If you get a raw number, sometimes it is hard for the appropriate oversight to occur, and so maybe the staff could use existing data in a configuration that would solve the chairman's goals here in the committee.

Senator SARBANES. I am sure when you were Director of the Peace Corps you did not have to meet this ahead of time.

Senator COVERDELL. Actually, you did not have to do it in advance, but everything is recorded and documented.

Senator SARBANES. I think the problem here is doing it in advance, although I do not think probably the Peace Corps had to do some of the secret missions. Who knows? You may have.

Senator COVERDELL. No, but there were emergencies. When we came out of the Gulf we had to move very quickly. So you sometimes have to move very quickly. But my point is that the data exists, the compilation we are struggling with here, and to the chairman and the ranking member, maybe that could be finessed.

The CHAIRMAN. Sure. Let me assure you that I want to meet you at least halfway on this and other issues that come up, and I suggest that on the two issues that have been raised here that your staffs and ours get together, and there is such a thing as a technical amendment, and we will probably have 50 of them before this bill is passed. So we will work with you. I see no problem.

Senator KERRY. Thank you, Mr. Chairman.

Mr. Chairman, if I could, I just wanted to inquire. We have a letter from you today which in the first page in the last paragraph says we are strongly disappointed that the funding levels associated with this bill, while in flux, appear to be about $265 million below the President's request for 1998. Now, I have got the chart that I think is a committee chart here which shows those numbers, in fact, different. Now, is that the in flux you are referring to?

Ms. LARKIN. I presume so, yes, Senator.

Senator KERRY. Do you know where we are now?

Ms. LARKIN. No, we do not, frankly. We got a mark when we got here.

Senator KERRY. Can you therefore say whether you are happy or unhappy?

Ms. LARKIN. I can say one thing: Generally I am happy. On funding, however, this, I think as you all know, has been a major priority for Secretary Albright, and I think probably she has spoken on this issue to every member of this committee and a lot of other people, as well. She worked very hard. We have got for the 150 account full funding under the budget resolution which allows a balanced budget by the year 2002. The whole counterpart of this bill includes full funding of the President's request, and we would very much like to see full funding of the request in this bill, as well.

Senator KERRY. Well, let me ask you this: When you were referring to the 265 million, what were the areas of concern that you were expressing? What was contained in the 265? I know there has been some add-back. I just want to try to reconcile this.

Ms. LARKIN. I can tell you, Senator, the things that we were aware of that had been cut in the bill that these were prepared on were the peacekeeping account, the international organization account. On our operating expenses there were questions on MRBC's, which I understand involves a scoring issue, though, with CBO, not with this bill.

Senator KERRY. Peacekeeping was how much below what you had requested?

Ms. LARKIN. Forty million.

Senator KERRY. Forty million. Is there any add-back to that at this point, Mr. Chairman? No.

What else was below?

Ms. LARKIN. The international organizations.

Senator KERRY. How much below?

Ms. LARKIN. Sixty.

Senator KERRY. Sixty million below where you would like to be on international organizations.

What would that specifically effect, that the administration wants to achieve?

Ms. LARKIN. Senator, overall the problem is arrears, and we have gone through all this good work with the committee and the staff on paying our arrears to the United Nations and other international organizations, and if the accounts end up short at the end of this process we would be accumulating more arrears.

Senator BIDEN. Will the Senator yield for a point of clarification?

Senator KERRY. Yes.

Senator BIDEN. They were 60 below. They are now 31 below.

Ms. LARKIN. Right. That is what I meant, sir.

Senator BIDEN. We got back a total of 42 this morning. But let me make two things clear. One of the big chunks here is 140 million that relates to the way in which we deal with visas. I would like to ask Brian McKeon of my staff to explain this budget scoring problem we have with a point of order on the floor in the Budget Committee.

Mr. MCKEON. In the 1995–97 authorization bill we authorized the Secretary to collect fees for visas and spend up to $140 million. The Office of Management and Budget, in presenting the budget appendix this year, has indicated that the money is already there in the administration's baseline. In other words, they have been collecting it, and we had a provision that would essentially release that money. That is considered direct spending, and it creates a pay-as-you-go problem, to use budget jargon. We would face a budget point of order.

We are trying to rectify the problem working with OMB and the Budget Committee, and we hope to fix it by the time we get to the floor.

Senator BIDEN. And that is 140 million of this 200 million we are talking about.

Now, the second point is in addition to that we restored 40. The chairman agreed to restore another 40 million today, and so the really we are talking about now is close to what? What is the total? $71 million difference between what the administration asked in a $5-plus billion bill and what this committee is voting for them now. It was as high, John, as 240, it is now down to 71.

Now, again, if we cannot solve, we have got a Budget Committee problem over here on this 140. That is a big deal, and OMB, us, and the Budget Committee have to figure out how we deal with that. But the intention of the chairman is that money should be available to the State Department. So if we work that out we are then $71 million difference in what was requested and what is going forward.

I apologize for the jargon, but that is the complicating factor.

Senator KERRY. If we do not work it out we are 211, right?

Senator BIDEN. Well, that is true, but there is nothing the chairman can do about that unless we then come back and they seek a supplemental or whatever. But that is a matter relating to the way in which we score this thing. It is not the chairman is trying to keep that out.

Senator KERRY. Fair enough. I understand. I understand. I am just trying to get the picture because I want to understand it before we vote.

Ms. LARKIN. Senator Kerry, there are some other cuts in other agencies that are included in this bill, as well. ACDA, I know are concerned about their expenses. The last version that we saw was cut $7.2 million, and USIA took cuts in salaries, expenses, international broadcasting, and East-West and South Centers.

Senator BIDEN. That is true. It was 39 million instead of 46 which was requested.

Senator KERRY. Well, 41.2 would leave it—I beg your pardon—would at least be equivalent to this year.

Senator BIDEN. 41 was appropriated last year.

Senator KERRY. Correct. So it is a cut.

Senator BIDEN. And this is 2 million under that.

Senator KERRY. Now, can you just give me a breakdown on that 71 million? Where will that come from? What will be not be doing that you wanted to do, or nothing affected?

Ms. LARKIN. Senator, I cannot because I do not have the most recent numbers, so I am not sure where the money has been taken out.

Senator BIDEN. I can help you in that, if you want. I think the State Department will confirm as they learn the numbers; 40 million of that is in peacekeeping—40 million of that. So the request for peacekeeping was 240 million. This includes 200 million for peacekeeping.

There is also—contributions to international organizations. The request is—or what is authorized is 31 million below what is requested, and those are the two places, assuming we solve the 140 million problem with the visas, those are the two places where the bulk of these cuts, 95 percent of the cuts, this is where 95 percent of the cuts come from.

Senator KERRY. Now, just with respect to rationale, we had that big Blair House meeting and it was a bipartisan effort to try to understand the how postcold war world and our obligations in it, and the Secretary has been very outspoken about her perception, and I think the administration's, of the need to augment, not diminish, our presence in a number of areas. Is the Secretary—I mean, Ms. Larkin, are we sort of—is there a sign-off on this with the notion that this is sort of the best we can get, or does this represent what the administration wants?

Ms. LARKIN. The administration would like full funding of all the 150 accounts.

Senator KERRY. Is it possible for the administration to submit to us—I mean, we are not going to obviously do it today, but between now and the floor, what the difference is in terms of these things that matter to the administration, the difference in performance or efficiency or presence or whatever it is?

Ms. LARKIN. Yes.

Senator BIDEN. Mr. Chairman, if I can respond to the Senator on two points, because I had the same concern about the arrearages and we had a little bit of a disagreement here on how to deal with the peacekeeping piece, which is one of the big cuts. The peacekeeping account, the way in which—even though it is funded at 200 million, should not create any arrearages, and I have had this discussion with the State Department. The budget estimate, for example, the administration's, includes $15 million for a possible peacekeeping mission in Afghanistan. Given nearly total control of that country, there is no reasonable observer who expects there will be a deployment of any U.N. force there. If there was, we would be $15 million short.

Additionally, the budget includes $50 million for an African crisis fund, which I support. But this is not a U.N. operation, but part of the U.S. initiative to build this peacekeeping capacity in the region. So there will be no arrearages here relative to the U.N.

So there is no reason why there will be any U.N. arrearages, even though we are at 200 instead of 240 which the administration asked for. I support the 240. I think the Senator supports a lot less. With regard to whether this meets the request, the total money request of that meeting we had at the Blair House, I would make, I think, a cogent observation. The chairman was not there.

And so this is, I think, in my discussions with the Secretary as recently as last night sitting next to her for dinner for 2 hours was I think she acknowledges this is the best she can possibly get, and to be blunt about it, you have got the House fully funding it, we funding now $71 million short and a 2-year budget plan of $6 billion.

Now, I have been here a long time. Administrations who come in that close to what they request usually in their heart are not disappointed. So we are talking about an important amount. I would like to fully fund it, but I think it is fair to say, based on the information I have gotten from the administration, because of Afghanistan and because of this African crisis fund not being a U.N. operation, the idea that we are going to create new arrearages as we are cleaning up old ones is a nonexistent concern.

Senator SARBANES. The money for the international account is in division C, not division B, is that correct?

Senator BIDEN. I believe that is correct, yes.

Senator SARBANES. I think this is a very important point.

Senator BIDEN. Well, he raised the question on this point.

Senator KERRY. I raised it in the overall context because there is money in this division for the consulates and the missions and the protection and all the other, the maintenance of our embassies and all of that projection. That is why I wanted to get at the money now just to make certain that with respect to those things, because there was some discussion about the state of some of our buildings, our properties, our security, living conditions of many of our Foreign Service, and so forth, and I want to make sure that, since that is in this title, that we are reflecting accurately what the administration felt.

Senator BIDEN. All those are fully funded, Senator.

Senator KERRY. I understand.

The CHAIRMAN. Can we move on? I would like to finish up tonight.

Senator LUGAR. Let me just mention that in division C I will offer an amendment that will make it possible for full funding of the international organization account, but let me say in section B I would like your opinion, Ms. Larkin, about the foreign policy changes your letter indicates the administration does not support. There are too many to mention or have debates today, but how serious is the objection? Is this serious enough that the administration is not going to support the bill all of these initiatives are adopted?

Ms. LARKIN. If they are all adopted? Senator, there are foreign policy provisions in both this bill and the bill as it came out of the House of Representatives, and there are a number of them that we need to work on. I think for the President ultimately to sign this bill they would have to be at least modified and some deleted.

But I think at this point what we would like to do is try to work these issues through the process. So we are not opposing the bill on that basis at this time, but a number of them are serious and need to be worked on.

Senator LUGAR. Thank you.

Senator SARBANES. A number of the foreign policy provisions that are in this section, in this division B?

Ms. LARKIN. Yes, Senator.

Senator SARBANES. Did you indicate which ones in your letter, or did you just make a general point?

Ms. LARKIN. Senator, we have indicated some of them in our letter. It is difficult to refer to sections because I think the bill that came out for markup is different than the last version that we had.

Senator SARBANES. It is a moving target, no question.

Ms. LARKIN. One that I am aware of is the Jerusalem provision. There are some related to Asia and Taiwan.

Senator BIDEN. We dropped the Taiwan. They are now dropped.

Mr. Chairman, if I may respond, and in fairness to the administration there is no way they would know this. The provisions referred to are related to provisions relating to Jerusalem. For example, one of them was the U.S. consulate in Jerusalem would be placed under the supervision of the Embassy in Tel Aviv. The U.S. Government publications must identify Jerusalem as the capital of Israel. $100 million is available for building the U.S. Embassy in Jerusalem in the next 2 years, et cetera, all of which the administration opposes, all of which every time we vote on them on the floor vote overwhelmingly, and I will bet if you vote in this committee they would all pass.

One of them has been deleted this morning. U.S. officials will not be allowed to meet with Palestinian officials in Jerusalem. That had been in the mark. That is out of the mark. That is what I refer to when I say the Jerusalem provisions. That is what the administration means by the Jerusalem provision.

Now, you are looking at me with a funny look. Correct me if I am wrong. They are the portions of the bill that relate to Jerusalem that you do not like, right?

Ms. LARKIN. Yes, sir. They are a little bit more serious than that. There is one that withholds a substantial amount of funds unless an Embassy is built in Jerusalem and involves contractual obligations in the last version that we saw.

Senator BIDEN. No. That has been deleted. There is no specific earmark any longer. This says that the U.S. consulate—excuse me—that the 100 million is available—available. There is not a mandate it be built within 2 years. There is no mandate at all. So that is deleted, as well.

OK? I mean, just so you know. That was giving you great heartburn. That has been deleted through the leadership of Senator Feinstein and her importuning the chairman. The Taiwan provisions are deleted, as well.

Now, what is left, though, there is still in here the provisions on Jerusalem that you do not like, the ones I named. The ones that remain are, so everybody knows what we are talking about, are U.S. consulate in Jerusalem will be placed under the supervision of the Embassy in Tel Aviv; U.S. Government publications must identify Jerusalem as the capital of Israel; 100 million is available for building a U.S. Embassy—available; U.S. citizens born in Jerusalem can have Israel listed as their place of birth on U.S. passports, which is not the case now. Now, they remain in the bill.

I share the administration's view that it would be better for us not to dictate that in this bill, but the truth of the matter is every time we go to the floor and we vote on these things the chairman

wins and others win on these items. But they are the ones that remain that will continue to give you heartburn. There may be others on Israel that I am unaware of.

Senator FEINSTEIN. Can I ask a question?

It is my understanding that, for example, the one that you have very graciously deleted that I was concerned with——

Senator BIDEN. Well, the chairman did. I did not want it in, in the first place.

Senator FEINSTEIN. Excuse me, that the chairman deleted. It is my understanding that placing the consulate under the jurisdiction of the Ambassador now, does not preclude any meetings in the consulate in Tel Aviv?

Senator BIDEN. Absolutely right. The big provision that was deleted—the two big provisions that the chairman accommodated were, one—and we have been talking about this and trying to get them moved, and he agreed to do that today—one is there was a provision—so no one has an old draft and they do not get confused—there was a provision where U.S. officials would not be allowed to meet with Palestinian officials in Jerusalem, period. That is deleted.

The second provision was that we must build the U.S. embassy in Jerusalem within—what was it, a 2-year timeframe? The $100 million was available only for the purpose of building that embassy—you follow me—in Jerusalem. That is no longer in the bill. Only that provision. They are the two things that have been deleted.

As you well know, Senator, it has been U.S. policy under five Presidents that we were going to stay neutral on Jerusalem. It has been a fight we have on the floor every year. The Senate always votes against every President. It relates to whether or not the consulate in Jerusalem is just a consulate to Jerusalem or it is part of the U.S. embassy in Tel Aviv. The symbolic importance of that obviously is, if it is part of the U.S. Embassy in Tel Aviv, we are recognizing, in effect, Jerusalem officially as the capital. That is the concern. That is in the bill. That is in this bill.

The administration, understandably, and the last one and the one before that and the one before that, they do not like that. I happen to think they are probably right that we should not insist that they do that. But the point is, when we vote on that on the floor, I do not know about you, but I think almost every Member goes ahead and votes for that.

So the things that are these big foreign policy concerns on Jerusalem are things they are not going to win on anyway on the floor. You are going to flat lose on those anyway. So the question is, do we not go ahead and do this because of things that I would rather not be in the bill, but the chairman is going to win on anyway.

The most noxious provisions, as I see it, the chairman has accommodated and taken out. Notwithstanding the fact, I would argue, take them all out—but he has gone a long way.

The Taiwan provisions you raised today, the chairman, because of your request—it did not work for me when I tried to get it out—you have got it out today. Now, the only thing left is—what is the other area, Taiwan, Jerusalem, what is the other one?

Ms. LARKIN. Iraqi claims, Belarus.

Senator BIDEN. Oh, yes, this creates a special envoy to Tibet. You all do not like that, right?

Ms. LARKIN. Right.

Senator BIDEN. Right. Now, let me ask you a question. On the floor and in this committee, we are going to vote on a special envoy to Tibet. What do you think wins? I love the administration, but I mean these great foreign policy concerns they are talking about, in a $6 billion bill, quite frankly, I understand their concerns and they are legitimate concerns, but if the President were to veto the bill over this, I will eat this microphone, OK.

Senator FEINSTEIN. May I ask a question on the Tibet issue and the special envoy?

The CHAIRMAN. Senator Feinstein.

Senator FEINSTEIN. Thank you, Mr. Chairman.

Let me ask Ms. Larkin. It is my understanding that the Secretary of State is considering appointing a coordinator, who will coordinate United States policy vis-a-vis issues that are Tibetan. And I would hope that those who put this in the bill, with the rank of Ambassador, would remove it as soon as that appointment is made. I would like to corroborate that, because I think the State Department is proceeding along the right lines here, and I wish we could get that coordinator position appointed.

The problem in this is the Ambassadorial status. It is my hope that the chairman of this committee and the chairman of the House committee would be willing to remove that in conference if the appointment is made in the interim.

The CHAIRMAN. Did you get that information from Barbara? I did not give you that.

Senator FEINSTEIN. No, you did not give that information to me, Mr. Chairman. My staff gave that information to me.

Senator COVERDELL. Mr. Chairman.

The CHAIRMAN. Let me say parenthetically, we have a vote on the Senate floor at 4:45, and I hope that we will not have to come back here.

Senator COVERDELL. Yes, I was going to address that point, Mr. Chairman. Hearing the opening statements from the chairman and the ranking member, it sounded like a peace treaty that had been difficult to work out, but that had been, including the administration. Now, if that is the case, I think are we reopening all the negotiations here?

Senator BIDEN. Not really.

Senator COVERDELL. But there was an implicit agreement that we are not at the total end of the road yet and through with the process, that other things might happen and this is still a work in progress. But I am beginning to lose the sense of that here.

Now, is that where we are? And if it is, I think we can facilitate the points.

Ms. LARKIN. Senator, I think that is correct. There are things in this bill that we would like to see changed, and we will continue to work to do that.

Senator COVERDELL. But essentially, you have the Helms-Biden proposal, and it is something that you are not here to try to defeat or block?

Ms. LARKIN. That is correct.

Senator COVERDELL. Thank you.

The CHAIRMAN. Very well.

May we vote on provision B now?

Senator SARBANES. Mr. Chairman, could I ask a question?

I am curious and I do not know, I would like to know who Mr. Pierre Telenti is, who gets two pages in the bill to deal with his confiscation of property case. That is on pages 19 and 20.

Mr. KLEINE. Sir, Mr. Telenti is an American citizen who was living in Rome at a period of time in which certain properties were confiscated from him. There is currently a friendship agreement between the United States and Italy that outlines provisions for receiving compensation for properties that have been compensated. Mr. Telenti had approached us—it has now been several years. The Department of State has determined that they would officially espouse his claim with respect to the Government of Italy. That provision is just expressing the sense that that confiscation claim should be resolved.

Senator SARBANES. Well, who is he and how did this—I mean what is the factual basis? I mean this fellow is getting two pages out of this bill.

The CHAIRMAN. Well, he probably gave a million dollars to the Democratic Committee.

You know we could pull threads from the fabric all afternoon here. Are you opposed to this? Is the State Department opposed to this?

Ms. LARKIN. This particular provision?

The CHAIRMAN. Yes.

Ms. LARKIN. Senator Helms, we have not seen the provision. It was not in the last draft that we saw.

The CHAIRMAN. Oh, yes, you have. Yes, you have. We worked with you on it.

Ms. LARKIN. OK, but I think that it was added after the letter was prepared.

The CHAIRMAN. Well, somebody go call the Secretary and ask her if she had not talked about it. I mean I do not want to get the suspicion that there is an effort to delay the consideration of this.

Ms. LARKIN. Senator, I misspoke. We do have them.

The CHAIRMAN. Pardon me?

Ms. LARKIN. We do have them.

Senator BIDEN. And they have had it.

The CHAIRMAN. Yes.

Ms. LARKIN. This is the sense of the Congress provision?

The CHAIRMAN. Yes.

Senator BIDEN. Yes.

Senator DODD. Can I find out who he is? I am just curious.

The CHAIRMAN. Well, I think we are being a little flippant now. Let us move ahead.

Senator KERRY. Mr. Chairman.

The CHAIRMAN. Yes, sir.

Senator KERRY. When you said move ahead, are you preparing to vote right now?

The CHAIRMAN. Yes, sir.

Senator KERRY. I just wanted to make a comment, then, and it will not upset anything. In fact, I wanted to thank you for working

with me to deal with some of the concerns that we had with respect to section 1610 on the greenhouse gas emissions agreement.

And I just wanted to mention, Mr. Chairman, the Kyoto meeting is of enormous importance on this subject. I share your concern for the need for the administration to share with us the economic analysis that is critical to developing a position. I want to emphasize that if I can to Ms. Larkin and the administration today. I think it is very important for this committee now, soon, to begin to have those economic assumptions and the analysis which will develop our position. I am disappointed that we do not have it yet. I hope we are going to have that soon. I think it is terribly important to us.

But, Mr. Chairman, I just want to call your attention to one thing. The Justice Department has let me know today that they believe this section of the reorganization bill could conceivably affect the ability of the President to be able to actually sign an agreement in Kyoto because of the potential for judicial review and litigation. I do not think that is your intention. I do not think that is what you are setting out to do.

So what I would like to simply do is agree that we will flag this, work on it between now and going to the floor, and see if we can work it out.

The CHAIRMAN. Absolutely. This is not the end-all, be-all. There is going to be a lot of technical amendments.

Senator KERRY. I understand.

The CHAIRMAN. There are going to be a lot of other kinds of amendments.

The Clerk will call the roll on division B.

The CLERK. Mr. Lugar.

Senator LUGAR. No.

The CLERK. Mr. Coverdell.

Senator COVERDELL. Aye.

The CLERK. Mr. Hagel.

Senator HAGEL. Aye.

The CLERK. Mr. Smith.

Senator SMITH. Aye.

The CLERK. Mr. Thomas. [No response.]

The CLERK. Mr. Grams. [No response.]

The CLERK. Mr. Ashcroft.

Senator ASHCROFT. Aye.

The CLERK. Mr. Frist. [No response.]

The CLERK. Mr. Brownback.

Senator BROWNBACK. Aye.

The CHAIRMAN. Mr. Frist votes aye, by proxy. Mr. Thomas votes aye, by proxy.

The CLERK. Mr. Biden.

Senator BIDEN. Aye.

The CLERK. Mr. Sarbanes.

Senator SARBANES. No.

The CLERK. Mr. Dodd.

Senator DODD. Aye.

The CLERK. Mr. Kerry.

Senator KERRY. Aye.

The CLERK. Mr. Robb.

Senator BIDEN. Aye, by proxy.
The CLERK. Mr. Feingold.
Senator FEINGOLD. Aye.
The CLERK. Mrs. Feinstein.
Senator FEINSTEIN. Aye.
The CLERK. Mr. Wellstone. [No response.]
The CLERK. Mr. Chairman.
The CHAIRMAN. Aye.
The CLERK. Mr. Chairman, the vote is 14 yeas to 2 nays.
The CHAIRMAN. I thank the Clerk.
Now, we proceed to division C. The floor is open for amendments.
Senator BIDEN. Mr. Chairman, I have an amendment that relates in part to what Senator Lugar is going to do. It may make it easier or harder—I do not even think we need a roll call vote on it. But right now, in division C, which is the U.N. arrearages, there is $819 million in arrearages to the U.N. related to the committee mark. Division C, on page C–25, lays out the schedule on which this payment would take place: $100 million in fiscal year 1998, which is accommodated in the budget agreement, and it says 419 in fiscal year 1999, and 300 million in fiscal year 2000.

In my discussions with Ambassador Richardson and with the Secretary of State—but precisely with Ambassador Richardson—he strongly, strongly believes he needs, in order to accommodate the intention of this legislation, which he thinks he can, and the mandates, he needs 475 in the second year. So I would move—and if we can do it by voice or you want a roll call, Mr. Chairman—by voice vote that we amend that section, instead of reading 100, 419 and 300 in successive years, to 100, 475 and 244. In other words, we are loading up another—well, it is obvious.

So I would move that amendment, Mr. Chairman.
The CHAIRMAN. Without objection, it is approved.
Senator BIDEN. I thank the chair.
Senator KERRY. Mr. Chairman.
Oh, I am sorry, I apologize to Senator Lugar.
The CHAIRMAN. Senator Lugar.
Senator LUGAR. Mr. Chairman, let me begin a discussion of two amendments. I will ask staff to distribute two amendments that I would like to discuss together. One deals with the potential new arrearages or current dues. We discussed this a little bit during our division B debate. The other is a more serious problem with regard to the arrears of the past.

I would cite for the attention of Senators, and I distributed yesterday in a Dear Colleague letter, polling data from the Wirthlin Group which indicate that American citizens find membership and participation in the United Nations to be very important, 54 percent; somewhat important, 28 percent. And with regard to the following statement, we should cooperate fully, the Times-Mirror Group says 65 percent in favor of doing that and 29 opposed.

Coming down to getting out of the United Nations, 72 are opposed and only 22 favored. But when it comes to paying our dues, it is a somewhat closer issue: 30 favor strongly paying up; 28 percent somewhat favor, 13 were somewhat against, and 16 opposed. So it is roughly 58/29 in terms of paying our dues. Americans believe by 78 to 13 that we should always pay as a matter of general

principle. But in a Wirthlin poll, by 64 to 28, Americans believe that the United States should pay its dues notwithstanding what other nations do.

Now, I cite this because it seems to me there is a general view, as we have discussed the United Nations, that the United Nations is an unpopular group, imposing its will upon us. In essence, the American people, by 2 to 1, like the United Nations. They feel we ought to be vitally a part of it and pay our dues. It goes at variance with the nature of this debate. Just at the outset, it seems to me, and each Member must make a judgment of his or her own constituency, but there is sentiment that the United Nations is useful for our foreign policy. I believe that.

And the reason I offer an amendment, in spite of the remarkable work by the chairman and the Ranking Member to negotiate a very difficult situation—and I acknowledge their work and that of the administration—is that I truly believe the adoption of division 6 as we now see it is likely to lead to a severe weakening of the United Nations, to a point that it will face, if not bankruptcy, then continuous short-term borrowing requiring a shuffling between accounts.

And that is simply the basic organizational structure. But the nature of my amendment and the explanation for it goes much deeper than this. The arrearage account—I call for the payment of the $819 million in a 2-year period of time, during the period of this Congress, so we can take responsibility for it, to be paid in equal amounts. We will have to finally check the Budget Act and the appropriation process to be doable.

I would like to pay our arrears in 2 years, in equal installments. I would like to do it without conditions. In short, about 18 pages of division C are devoted to conditions—the hoops through which various entities must go in order to get the money.

Now, the facts are that 65 percent of this money is not devoted to the Secretary-General or the bureaucracy of the U.N. or any of the problems we find with it. The money is money we owe to other countries—mostly to our allies for peacekeeping.

And to state it very candidly: They sent troops, we sent money. We both pledged to do that. We voted for every single dollar of that money, as well as for sending their people into harm's way. We owe them that money. Now, I think it is indisputable that we owe them that money.

Now, these are countries, such as—as I cited in a letter to colleagues yesterday—Great Britain, 41 million; France, 60 million; the Netherlands, 21 million; Pakistan, 20; Germany, 18; Belgium, 17; Italy, 17, Canada, 14 million. We owe them the money. The United Nations is simply a pass-through for this money. It is not administering or keeping that money, it is a pass-through.

Now, the proponents of division C say if we withhold this money from our allies and from those that we voted to send into harm's way, we will have leverage to force them to vote for our reduction of dues from 25 percent to 20, or our peacekeeping dues from 31 to 25 percent. These are also arrangements that we negotiated with other countries, and we shall have to continue to do so.

But I think it is fair to say the proponents of division C say that, even though we owe them the money, this thing has got so confused that somehow the U.N. is an organization running out of

style and a bureaucracy running amok. By continually attacking that situation, which is only 5 percent of the arrears problem, we obscure 65 percent—namely, payment for the peacekeeping operations to countries we owe.

Now, the proponents may be right. If they pass this legislation, history will record whether they were or not correct. My own judgment, very frankly, is that we have a lot at stake beyond these sums. We are negotiating now and will be for some time, about NATO reorganization. There are very large obligations involved—burden sharing, as to who will be included in an expanded NATO. Some of the same nations on this list now are among the nations with whom we will be negotiating.

We have very high stakes in agricultural negotiations with the European Community, and large dollars are involved. Our success in negotiating with Europeans in particular is going to be related to the good faith effort we have on obligations that are contractually clear.

How Senators can believe that somehow an argument on the United Nations, with all the pejorative references there, does not ricochet with other issues escapes me. This has been a fun game for a long while, to attack the U.N.—much like the billboards in my home State that used to say get us out of the U.N. But I am saying that 70-some percent of Americans do not want to get out; 22 percent do, and I acknowledge that fact. But the 22 percent are not the majority.

If we do not settle the arrears in a way comparable to the way I have suggested, and that is promptly and without conditions, I predict that the United Nations, structurally, will be weak and much less use to us. Second, I predict very great problems of negotiations with our allies and with others who have had some faith in us.

I would say to those who believe, well, fair enough, if all of the qualifications of division C are met, these countries get their money. But, this is disingenuous to suggest that they go through all the hoops to get the money we have already contracted to pay. I would suggest anybody making a thoughtful reading of those 18 pages will be hard-pressed to understand how any country will ever get all the money owed them.

As a matter of fact, I do not believe it is doable. Therefore, I think the real question before us is division C, an attempt simply to say take it or leave it to the President, and to the rest of the world. It really is not a take it or leave it, because the possibilities of taking it are not there. I would simply say that, as Senators read through this, they had better be thoughtful about all of the hoops that are there.

Now, having said this, I appreciate there is a certain Don Quixote effort going on here, and it is self-imposed by myself. I would say that it is clear that this has been negotiated carefully by the chairman and the distinguished ranking member, and normally I would defer to their judgment. But I think this is so serious I believe this could very well be the end of the line for the United Nations, and we are still in very difficult circumstances for the United States vis-a-vis our allies and our contractual relationships.

Therefore, Mr. Chairman, I respectfully propose the amendment that deals with this issue in a very straightforward fashion: Pay our arrears in 2 years, equal amounts, no strings attached, on the logic that our ability to negotiate at the U.N. is likely to be enhanced by the good faith with which we approach this problem.

Make no mistake about it, there is no enthusiasm at the U.N. for giving us a dues reduction. There might be in the event that there is some good faith as we take a look at our responsibility in Europe, in NATO particularly, and with our trade relations, to take a look in the total American foreign policy picture.

Senator BIDEN. Mr. Chairman, I think Don is doing the right thing. Senator, you are correct in this regard, in my view, that it would be much better if we fully funded this and there are no strings. But as they say both in domestic and international politics, politics is the art of the practical. Let us talk about where we started from.

We start from zero. We start from no money, and we start from the inability over the last several years to get any movement on doing this. We start from the premise that in the House there is nothing.

Now, you are correct in what most people do not understand is the vast majority of the arrearages we owe we owe to our allies: France, Great Britain, the Netherlands, Pakistan, Germany, Belgium, Italy, India, Canada, all friends and/or NATO allies. You are correct that at the very time we are expanding NATO that we are going to go out and try to get them to take on a larger burden, we are going to be telling them we are not going to give them all that we owe them.

But the fact of the matter is this: I sat at length—hours and hours—with the Ambassador to the United Nations, with our Secretary, and I basically asked at the front end, I said, what is the bottom line drop-dead number you need to get the job done? Now, my good friend here was not enthusiastic about any of this, and the highest number we got up until 4 days ago was 600 million. He is taking a lot of heat, I expect—I am sure he can take it—from a constituency and a part of your party that he is probably the most well known figure. The bottom line came down to what was the drop-dead number, and the drop-dead number was 819.

Now, let me make two other points: I met with the President of the General Assembly, as you probably did. I met with five of his associates, Ambassadors from other countries. This notion of can we get down from 25 percent, the answer is yes, we can. The constant refrain they kept telling me was but you have got to show good faith. Movement now is urgent. Movement now is urgent. Urgent. If this goes on for another year, Senator, they think you are right, things will fall apart.

So here we are faced with a dilemma. I cannot agree with my colleague, Richardson cannot agree with the chairman, and say we want it all, that we think we have to have and should have. This is going to go on for another year. We are going to end up, I respectfully suggest, Senator, right where you are fearful we will be.

The flip side of that is if we pass this, if it becomes law, and I want to make it clear, and the chairman knows this, this is not something I am prepared to negotiate down in conference; 819 is

a drop-dead number. So I am not prepared to vote for anything less than that in the conference. The chairman knows that, we have never misled each other, he knows where I am, and I am expecting this is the number or no number.

But the truth of the matter is if we are able to get within this next fiscal year 100 million bucks, if the U.N. understands we have appropriated the money, everything is in terms of what is realistic. They know where we have been. They know the numbers. I have to rely on Ambassador Richardson—me personally—and I have to rely upon the State Department when I ask them can you do the job with this money.

Now, they could be wrong. I could be wrong for listening to them. I want to make it clear, they love your amendment. If you recall, I called you when the Senator was at 600 to say—and I called several others on the committee saying hey, we should do an amendment to fully fund this. I did. You know that, Mr. Chairman. Then the chairman came back and said look, this overall deal is more important to me than it all falling apart. I assume that was the rationale.

So I want to emphasize this is going to be the hardest no-vote I have cast. I made an agreement. I stick by my agreement. I made the agreement though not merely to get a deal. I made an agreement conditioned upon my being assured by our Ambassador that this can get the job done for him. I think it can, but I do not know nearly as much about it as he does or many of you here who have spent more time with regard to United Nations.

I conclude, Mr. Chairman, by saying you are right about the U.N. It is important, it is relevant the American people, notwithstanding the disagreement my friend from North Carolina and I have occasionally on this. Support it. It makes sense. I would argue there is one significant benefit for if we pass this and it eventually becomes law and is signed by the President, and that is for the first time in the time that I have been here—maybe I should not say this, but I am going to say it anyway—since I have been here, we may begin to put an end to the polemic debate about the United Nations, because when Mr. Conservative in the United States of America, and I challenge anybody to name anybody in America who is a better known conservative and a better known person in terms of his opinion about the U.N. than the chairman, the fact that he is willing, reluctantly, to sign on $819 million in arrearages is a political statement of consequence that I do not think we should underestimate. I would love, like the Senator from Indiana, to put behind us this polemic debate that has dominated us in the Senate for the last 7 or 8 years.

A guy ran against me who is a wonderful man. His whole campaign was blue helmets and sovereignty. I mean, you know? All I have to do next time—this is really going to get the chairman in trouble—is say Helms supported it. Woah.

Now, I am not kidding, folks. Understand the political significance of this, what it says for the United Nations. I think this compromise, in addition to being able to get the job done, will send a message and put on an even keel the notion that the U.N. is relevant, important, and we are going to be players in it. There is no one I respect more, and you know this, in the Senate; no one I

think knows more about foreign policy than you do, Senator; but I am going to, with great reluctance, but for the reasons I stated, vote against you because I think this total package is the only thing to avoid what you most fear.

Senator SARBANES. Mr. Chairman.

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. Mr. Chairman, I want to commend Senator Lugar for offering these amendments. I think this is an extremely serious matter. If another country came to the U.N. in arrearages as we are, and laid out all of these conditions for meeting its obligations, we owe this money. We undertook this obligation. None of those peacekeeping efforts could have happened without the support of the United States. They all required the approval of the Security Council, on which we sit and where we have a veto. So presumably it was our judgment that they served our interest to move forward.

I am telling you, if another country showed up with these kinds of demands we would be enraged. Just kind of turn it around and put yourself in the other person's shoes. They come on, they have not paid their dues, they are delinquent, they assert they are paying too much. Well, are we? I do not know. Here is the U.N. scale versus the share of world income. The U.S.'s share of the U.N. is less than our share of world income. The European share is higher than their share of world income.

Senator COVERDELL. Could you respond to a question?

Senator SARBANES. Certainly.

Senator COVERDELL. When does the chart begin?

Senator SARBANES. This is at the 25 percent figure for the regular budget contribution.

Senator COVERDELL. Today. But if you took the period of time from the beginning of the U.N.——

Senator SARBANES. Oh, when we began the United Nations, the U.S. paid 39 percent in 1946 to 1949, and that figure has come down. Since 1974 it has been 25 percent. I do not have the figure for what the U.S. share of world income was in 1946, but I daresay it probably approximated the 40 percent that we were paying of the U.N. dues. I mean, we came out of World War II with an intact economy.

We are paying 25 percent, Japan is paying—how much do people think Japan is paying? Let me ask that question. Who can give me a figure on this committee? What do you think Japan pays, its percentage share of the U.N. dues; 15.4 percent. Germany is at 9 percent. Germany and Japan together pay as much as the United States, and their share of world income is significantly less than ours.

Senator BIDEN. Senator, can I make a point on that point?

Senator SARBANES. Sure.

Senator BIDEN. Also, we pay for their defense. We do more in terms of basic world security with our military that never even gets calculated any place, any way, any circumstance, in terms of us carrying our weight around the world.

You are absolutely right on the principle that this is wrong to go and try to change the game after we made a deal. I agree with that. You are right about that. But on its overall argument or the

United States share of its income is relative to the United Nations, name me another country—name me another country—that essentially underwrites the security of the rest of the world irrespective of the U.N. We carry more than our weight.

Senator SARBANES. Well, we do that because we perceive that we have important national interests.

Senator BIDEN. Bingo. But would not it be nice to have the rest of the world stop pillorying us about why we do not carry our weight?

Senator SARBANES. Well, I think Senator Lugar has made a very strong argument why clearing up these arrearages would improve our position in a number of different bargaining arenas in terms of sharing responsibility.

Senator BIDEN. You are correct on that. But I do not think the argument, Senator, about this notion about share of world income versus carrying our weight relates to that. You are right. We made a deal, we should pay for the deal.

Senator SARBANES. We should keep the deal.

Senator BIDEN. Keep the deal, you are right.

Senator SARBANES. That is right.

Senator BIDEN. Now, the other alternative is let us figure out if we do not do this deal how we pay any of the deal. Does anybody have an idea how you do that? I would like to know, because the last 4 years we have gotten zip, zero, nothing.

Senator SARBANES. Well, it is a wonderful process. We negotiate amongst ourselves in the Congress and with the administration. The U.N. is up there. I mean, they are not in this process.

Senator BIDEN. No, they are not in the process.

Senator SARBANES. Then an understanding is reached, and then that is going to be presented to the U.N. and they are going to be told look, take this or leave it.

Let me tell you, look, we have got a provision in this division C, let me just read it to you, I mean, and let the snake out on the floor in itself. The total amount of funds made available for all United States memberships in international organizations for which contributions are assessed may not exceed $900 million.

Senator KERRY. What page are you on, Senator?

Senator SARBANES. Page 6. Notwithstanding any other provision of law, the United States shall withdraw from an international organization or other wise reduce assessments in the following budget cycle of that organization, et cetera.

I think any proposal here that puts out on the table this snake of withdrawal, and the rest of this section goes on at great length to discuss withdrawal, consultation with the Congress, the deadline, the report, where are we going?

I think the United Nations has served very important American interests. People undertake these peacekeeping operations, and we do not have to send our own troops in. Every time one of these things happens people say, well, let us get the U.N. to do something about it.

Senator BIDEN. Senator, you are right, but how long do you think it would last if we would come up another year without any funding for the arrearages?

Senator SARBANES. I think we should pay off these arrearages.

Senator BIDEN. I do, but are you going to write a check, get John Rockefeller to do it, or are you going to get 51 votes?

Senator SARBANES. I think we should have a clear issue, as this amendment poses, on meeting in full our obligations to the United Nations. These are past obligations. These are past obligations.

Senator BIDEN. You are right. We have got to get 51 votes.

Senator SARBANES. These are things we failed to do. Therefore, I very strongly support these amendments.

This, in many respects, may be an historic vote, I think.

The CHAIRMAN. We are going to have a vote on the Senate floor, and I would like to get this matter settled before we go.

Senator KERRY. Yes, sir. I understand that. I will try to be very brief, and I know I am not going to change the vote. I kind of come out in between a little bit, Senator Sarbanes, but I am very, very supportive of what Senator Lugar is asserting here. I understand what Senator Biden is saying.

This has been a struggle. When I was serving as chair of the subcommittee I worked with Senator Pressler. We were very tough on the United Nations, with Senator Coverdell. We put in a lot of restrictions, and in effect we brought about a significant change, Mr. Chairman, a new Secretary General, commitments to reform, a very significant attitude shift, I think, and we have a new Ambassador there, and so forth.

I believe this will work, unlike maybe some of my colleagues. But I do not think it is the right thing to do. I think we are going to pay a longer-term price for it. I mean, diplomacy and relations with other countries are not just always bludgeoning and waving the big stick and achieving your short-term goal. There are longer-term goals. We have got major long-term interests in Europe, with former Yugoslavia, Bosnia, the emergence of the new NATO, and so forth. I must say as I have talked to people in New York, and I met with the Ambassador, too, and others, while this may work and we have been put in a position of accepting it, it does not mean we have to like it or vote for it or support it. It certainly does not mean we should not lay out for colleagues and others what the price is.

Now, I believe we have put ourselves in a position where private diplomacy, Mr. Chairman, could have achieved a commitment from Kofi Anon and others to proceed forward and get a reduction in the level. I happen to think we deserve it. I disagree with my colleague there. I do not think that particular measurement is the accurate measurement of today. But nevertheless, I am convinced we could have achieved a reduction without this bludgeoning. In my judgment, the result of this is going to be to lose votes down the road on countless different occasions where we might have won them.

We would not have been hurt one iota to ante up 1 year's payment on a 2-year schedule or 3-year schedule without condition. We certainly would have been prejudiced on 2 years. There is nothing to stop the Congress after that from coming back and saying OK, we gave you every chance in the world, you made your commitments, you did not change, nothing has transitioned, and so we are going to proceed.

But it seems to me that when you do it retroactively rather than prospectively on the money yet to come, you are really behaving in

a way that I think invites a lot more mischief than the short-term gain is going to produce, and in the long run I think we will pay a price for that.

The CHAIRMAN. Thank you, Senator.

All the Senators have made good points. What has not been expressed here is who on this committee and who in the Senate was responsible for the arrearages in the first place: Liberals and conservatives, Democrats and Republicans, and I remember Nancy Kassebaum was a leader because she was fed up with the conditions in the United Nations.

Now, all these platitudes that I am hearing, I am just about to get sick at my stomach. I move to table the amendment and the clerk will call the role.

Senator BIDEN. Which one are we moving.

Senator LUGAR. Let us vote first of all on the arrearages amendment.

The CHAIRMAN. Which one did you offer first?

Senator LUGAR. The arrearage. Then second the money for FY98, the 71 million.

The CHAIRMAN. The clerk will call the role.

Senator COVERDELL. The motion is to table the amendment?

The CHAIRMAN. Yes.

The CLERK. Mr. Lugar.

Senator LUGAR. Nay.

The CLERK. Mr. Coverdell.

Senator COVERDELL. Aye.

The CLERK. Mr. Hagel.

Senator HAGEL. Aye.

The CLERK. Mr. Smith.

Senator SMITH. Aye.

The CLERK. Mr. Thomas.

Senator THOMAS. Aye.

The CLERK. Mr. Grams.

Senator GRAMS. Aye.

The CLERK. Mr. Ashcroft.

The CHAIRMAN. Aye, by proxy.

The CLERK. Mr Frist.

Senator FRIST. Aye.

The CLERK. Mr. Brownback.

The CHAIRMAN. Aye, by proxy.

The CLERK. Mr. Biden.

Senator BIDEN. Aye.

The CLERK. Mr. Sarbanes.

Senator SARBANES. Nay.

The CLERK. Mr. Dodd.

Senator BIDEN. Nay, by proxy.

The CLERK. Mr. Kerry.

Senator KERRY. Nay.

The CLERK. Mr. Robb.

Senator ROBB. Aye, reluctantly.

The CLERK. Mr. Feingold.

Senator FEINGOLD. Nay.

The CLERK. Mrs. Feinstein.

Senator BIDEN. Aye, by proxy.

The CLERK. Mr. Wellstone.
Senator BIDEN. Wellstone, nay, by proxy.
The CLERK. Mr. Chairman.
The CHAIRMAN. Aye.
The CLERK. Mr. Chairman, the vote is 12 ayes, six nays.
The CHAIRMAN. I move to table the other Lugar amendment.
Senator LUGAR. This is the 71 million for this year.
Senator SARBANES. This is so we do not get further behind than we already are.
Senator BIDEN. Mr. Chairman, on that point, let me make it clear we will not get behind because it does not cover just the U.N. This $40 million difference does not cover just the U.N. It is the African special thing and Afghanistan. One is United Nations, the other is not.
The CLERK. Mr. Lugar.
Senator LUGAR. Nay.
The CLERK. Mr. Coverdell.
Senator COVERDELL. Aye.
The CLERK. Mr. Hagel.
Senator HAGEL. Aye.
The CLERK. Mr. Smith.
Senator SMITH. Aye.
The CLERK. Mr. Thomas.
Senator THOMAS. Aye.
The CLERK. Mr. Grams.
Senator GRAMS. Aye.
The CLERK. Mr. Ashcroft.
The CHAIRMAN. Aye, by proxy.
The CLERK. Mr Frist.
Senator FRIST. Aye.
The CLERK. Mr. Brownback.
The CHAIRMAN. Aye, by proxy.
The CLERK. Mr. Biden.
Senator BIDEN. Aye.
The CLERK. Mr. Sarbanes.
Senator SARBANES. Nay.
The CLERK. Mr. Dodd.
Senator BIDEN. Nay, by proxy.
The CLERK. Mr. Kerry.
Senator KERRY. Nay.
The CLERK. Mr. Robb.
Senator ROBB. Nay.
The CLERK. Mr. Feingold.
Senator FEINGOLD. Aye.
The CLERK. Mrs. Feinstein.
Senator BIDEN. Nay, by proxy.
The CLERK. Mr. Wellstone. [No response.]
The CLERK. Mr. Chairman.
The CHAIRMAN. Aye.
Senator BIDEN. I am sorry. I beg your pardon. Senator Wellstone, no to tabling, by proxy.
The CLERK. Mr. Chairman, the vote is 11 ayes to 6 nays.
The CHAIRMAN. Very good.

Senator GRAMS. Mr. Chairman, can I ask unanimous consent to be recorded on the previous vote on division B as voting aye? I missed that vote.

The CHAIRMAN. Very good.

Senator SARBANES. Mr. Chairman, I thought the vote was 11 to 7. It was announced as 11 to 6.

The CHAIRMAN. We have one en bloc amendment proposed by Senator Biden and me. It has been checked on both sides.

Senator COVERDELL. I move the adoption.

Senator BIDEN. I second.

The CLERK. Mr. Chairman, correction: The vote was 11 ayes to 7 nays.

Senator BIDEN. Can we just vote?

The CHAIRMAN. On division C, the clerk will call the role.

The CLERK. Mr. Lugar.

Senator LUGAR. Nay.

The CLERK. Mr. Coverdell.

Senator COVERDELL. Aye.

The CLERK. Mr. Hagel.

Senator HAGEL. Aye.

The CLERK. Mr. Smith.

Senator SMITH. Aye.

The CLERK. Mr. Thomas.

Senator THOMAS. Aye.

The CLERK. Mr. Grams.

Senator GRAMS. Aye.

The CLERK. Mr. Ashcroft.

The CHAIRMAN. Aye, by proxy.

The CLERK. Mr Frist.

Senator FRIST. Aye.

The CLERK. Mr. Brownback.

The CHAIRMAN. Aye, by proxy.

The CLERK. Mr. Biden.

Senator BIDEN. Aye.

The CLERK. Mr. Sarbanes.

Senator SARBANES. Nay.

The CLERK. Mr. Dodd.

Senator BIDEN. Aye, by proxy.

The CLERK. Mr. Kerry.

Senator KERRY. Aye.

The CLERK. Mr. Robb.

Senator ROBB. Aye.

The CLERK. Mr. Feingold.

Senator FEINGOLD. Aye.

The CLERK. Mrs. Feinstein.

Senator BIDEN. Aye, by proxy.

The CLERK. Mr. Wellstone.

Senator BIDEN. Nay, by proxy.

The CLERK. Mr. Chairman.

The CHAIRMAN. Aye.

The CLERK. The vote is 15 ayes, 3 nays.

The CHAIRMAN. I ask that the staff be allowed to make technical and conforming amendments to the bill, as reported, to ensure that

it accurately reflects the modifications made by the committee today.

Senator BIDEN. May I amend that to include the agreements we made as to what we were going to try to work out.

The CHAIRMAN. The clerk will call the role.

The CLERK. The vote on division C was 15 ayes, 3 nays. The vote now will be on final passage.

The CHAIRMAN. Now on final passage.

The CLERK. Mr. Lugar.

Senator LUGAR. Nay.

The CLERK. Mr. Coverdell.

Senator COVERDELL. Aye.

The CLERK. Mr. Hagel.

Senator HAGEL. Aye.

The CLERK. Mr. Smith.

Senator SMITH. Aye.

The CLERK. Mr. Thomas.

Senator THOMAS. Aye.

The CLERK. Mr. Grams.

Senator GRAMS. Aye.

The CLERK. Mr. Ashcroft.

The CHAIRMAN. Aye, by proxy.

The CLERK. Mr. Frist.

Senator FRIST. Aye.

The CLERK. Mr. Brownback.

The CHAIRMAN. Aye, by proxy.

The CLERK. Mr. Biden.

Senator BIDEN. Aye.

The CLERK. Mr. Sarbanes.

Senator SARBANES. Nay.

The CLERK. Mr. Dodd.

Senator BIDEN. Aye, by proxy.

The CLERK. Mr. Kerry.

Senator KERRY. Aye.

The CLERK. Mr. Robb.

Senator ROBB. Aye.

The CLERK. Mr. Feingold.

Senator FEINGOLD. Nay.

The CLERK. Mrs. Feinstein.

Senator BIDEN. Aye, by proxy.

The CLERK. Mr. Wellstone.

Senator BIDEN. Nay, by proxy.

The CLERK. Mr. Chairman.

The CHAIRMAN. Aye.

The CLERK. The final vote is 14 ayes to 4 nays.

The CHAIRMAN. Thank you very much. We stand in recess.

[Whereupon, at 4:50 p.m., the hearing was adjourned.]

APPENDICES

APPENDIX 1

HEARING OF FEBRUARY 26, 1997

U.S. Agency for International Development

Congressional Presentation
SUMMARY TABLES
Fiscal Year 1998

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

FY 1998 CONGRESSIONAL PRESENTATION

SUMMARY TABLES

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EXPLANATION OF TABLES

OVERVIEW

The tables in this booklet illustrate the foreign assistance budget request for FY 1998, which is a part of the President's Budget. The tables also include budget levels for FY 1996 and FY 1997 for comparison and, in Table 3, FY 1995. The levels for FYs 1996 and 1997 are based on the FY 1996 and FY 1997 appropriations acts and also reflect enacted rescissions for FY 1996 (except in the country "spigots" tables), as well as supplementals in FY 1996.

The U.S. Agency for International Development (USAID) administers certain U.S. bilateral assistance programs including Development Assistance (DA), which includes the Development Assistance Fund, the Development Fund for Africa, other specialized DA accounts for credit programs and disaster assistance; the Economic Support Fund (ESF); programs for Central and Eastern Europe under the Support for East European Democracy Act (SEED); the New Independent States of the former Soviet Union (NIS) under the Freedom Support Act; and Food For Peace Titles II and III (P.L. 480). The tables follow USAID funding from the overall account summaries to the individual country program levels. There are differences between some of the tables because of the alternative budget concepts being presented.

Each table describes funding from one of several approaches. New budget authority (also referred to as new obligational authority or NOA) refers to the funding levels appropriated by Congress in a given year after certain legislatively mandated transfers or rescissions. For the actual results of the prior year, total budget authority (BA) refers to the new budget authority plus reappropriations (such as deobligations and reobligations) and transfers. The program level (or obligation level) is the same as the total BA plus obligations of unobligated balances carried over from prior years less unobligated balances carried into subsequent years. Funds appropriated are not always obligated within the same year if they are available for more than one year.

Tables 1, 2A, 2B, 4A and 4B reflect actual budget authority for FYs 1996 and 1997. Table 3 and tables 5A and 5B reflect program or obligation levels for FYs 1996 and 1997.

On all tables amounts shown for FY 1998 represent proposed new budget authority (or the request level), which assumes no obligated balances from prior years.

Country "spigots" levels for FY 1998 do not reflect pending closures or downsizing still under review by the State Department and USAID.

International Affairs Budget Authority Tracker—FYs 1996–1998

Budget Function 150 Summary (Table 1)

The International Affairs budget function "150 Account" is the portion of the President's Budget which pertains to International Affairs. Table 1 shows the total budget authority for subfunctions of the 150 account for FY 1996 and FY 1997, and the request for FY 1998. Subfunction 151, International Development and Humanitarian Assistance, includes multilateral and bilateral assistance for Development Assistance and P.L. 480 food assistance. Programs under subfunction 152, International Security Assistance, help countries of strategic importance to the United States through Military Assistance and the Economic Support Fund (ESF). Subfunction 153, Conduct of Foreign Affairs, relates principally the operations of the State Department. Subfunction 154, Foreign Information and Exchange Activities, pertains to the operations of the U.S. Information Agency, the Board for International Broadcasting, and other public information activities. Subfunction 155, International Financial Programs, provides funding for the Export-Import Bank and the Foreign Military Sales Trust Fund. The 150 account is under the direction of the Secretary of State.

Budget Authority by Account (Tables 2A and 2B)

Table 2A reflects USAID programs only, in thousands of dollars. Table 2B covers the full 150 Account in thousands of dollars.

Programs and activities within the International Affairs 150 Account fall under the jurisdiction of three appropriation subcommittees. Table 2B shows the 150 account subdivided according to subcommittee jurisdiction (Foreign Operations, Agriculture, and Commerce/Justice/State) for FYs 1996 through 1998.

- Foreign Operations contains most of the programs under subfunction 151 (International Development and Humanitarian Assistance) including USAID-administered DA and humanitarian assistance, and subfunction 152 (International Security Assistance) including USAID-administered ESF programs. Other programs in the Foreign Operations classification include multilateral assistance, other bilateral assistance agencies such as the Trade and Development Agency, the Peace Corps, and the African Development Foundation, plus Military Assistance, and Export-Import Bank contributions.
- The Agriculture portion of the 150 Account refers principally to the food assistance provided under P.L. 480 (subfunction 151) which is appropriated to the U.S. Department of Agriculture (USDA), but, in the case of Title II and III programs, is managed by USAID.
- The Commerce/Justice/State portion of the budget reflects Department of State administrative operations (Subfunction 153), the operations of the United States Information Agency (USIA) and other public information programs, and assessed contributions to international organizations (Subfunction 154).
- The Mandatory portion of the budget includes receipts and certain reconciling items such as trust funds which are outside the responsibility of the appropriations committees.

Tables 2A and 2B show total budget authority levels for both FYs 1996 and 1997 and the request level for FY 1998. The totals for the 150 account in each year are the same as that shown on Table 1.

USAID Program Trends: FYS 1995–1998 (Table 3)

This table compares obligations (program levels) for all USAID-administered accounts for FYs 1995 through FY 1998. In any given year the program level varies from the new budget authority shown on other budget tables (see explanation in overview). The FY 1998 request once again represents new obligational authority.

"All Spigots"—U.S. Economic and Military Assistance—Appropriated Levels: FYs 1996–1998 (Tables 4A, 4B and 4C).

There are two sets of "all spigots" tables: One set (Tables 4A, 4B and 4C) shows appropriated levels for FYs 1996 and 1997 and the requested appropriations for FY 1998; the other set (Tables 5A and 5B) reflects the program level for FYs 1996 and 1997.

The appropriations tables show the levels by bureau and country for DA, ESF, SEED, NIS, Peace Corps, Narcotics, P.L. 480, and Military Assistance accounts.

Appropriated levels are those enacted by the Congress and do not include carryover amounts, transfers or funds available under the deobligation/reobligation authority.

NOTE: For FYs 1997 and 1998, country totals include, for USAID managed-programs, funding from regional or central funds for programs that can be directly attributed to a particular country. Affected regional or central programs will show a decrease from prior year funds due to these attributions.

"All Spigots"—U.S. Economic and Military Assistance Levels—Program (Obligation) Levels: FY 1996 (actuals) and FY 1997 (estimates)—(Tables 5A and 5B)

These "All-Spigots" tables show the program level (obligations) by bureau and country for DA, ESF, SEED, and NIS. The Peace Corps, Narcotics, PL 480, and Military Assistance data, however, is the same as in the appropriation spigots.

The FY 1997 program level for Table 5 equals the funds available for obligation in FY 1997 noted on the Program Trends, Table 3. Table 5 represents new budget authority plus any country allocations of prior year funds which are known at this time. (Not all of the unobligated prior year funds are allocated to specific countries at this time). Table 5 FY 1997 allocations change until the year's obligations are finalized at the end of the fiscal year.

The program level tables for FY 1996 and FY 1997 are included because the obligated level is considered to be the most complete picture of assistance actually provided to a particular recipient in a given year.

NOTE: Country totals for FYs 1997–1998 in this set of tables include, for USAID-managed programs, attributions from regional or central funds for programs that can be directly attributed to a particular country. Affected regional or central programs will show a decrease from prior years due to these attributions.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS (IO&P) (TABLE 6)

USAID cooperates with the Department of State on the planning and monitoring of voluntary contributions to the United Nations and other international organizations. Table 6 shows the BA funding levels for FYs 1996–1997 and the request level for FY 1998 for the International Organizations and Programs. The table, which is also presented in the FY 1998 Department of State Congressional Presentation, breaks out IO&P funding by the categories of Building Democracy and the four sustainable development themes. These contributions are different from the assessed contributions to the United Nations which are included under subfunction 153.

P.L. 480 SPIGOTS—TITLES II AND III PROGRAM LEVELS (TABLES 7A AND 7B)

USAID is responsible for the administration and implementation of P.L. 480 Titles II and III. Table 7A (Title III) and Table 7B (Title II) show actual program levels for FY 1996, estimated levels for FY 1997 and the FY 1998 request for transport, voluntary agencies (Volags), the World Food Program (WFP), and the International Emergency Food Reserve (IEFR). Tables for Title II programs are broken out into two sections. The first section reflects funding at the country level. The second section reflects tonnage amounts.

TABLE 1.—INTERNATIONAL AFFAIRS

[In thousands of dollars]

Budget authority	Fiscal year—		
	1996 actual	1997 estimate	1998 request
Function 151	6,396,413	6,309,679	7,188,488
MDB's/IO&P	1,384,514	1,288,855	1,851,191
A.I.D.	3,324,659	3,422,550	3,819,047
Debt restructuring	63,750	54,500	64,000
P.L. 480	1,133,912	1,017,774	877,250
Other	503,578	540,000	591,000
Receipts	(14,000)	(14,000)	(14,000)
Function 152	5,038,926	5,027,075	5,285,850
ESF	2,341,000	2,362,600	2,497,600
FMF	3,351,743	3,315,000	3,340,250
FMF liquidating account	(229,000)	(203,000)	(191,000)
Other	236,183	189,475	174,000
Receipts	(661,000)	(637,000)	(535,000)
Subtotal 151+152	11,435,339	11,336,754	12,474,338
Function 153	3,833,497	3,895,329	4,167,576
A.I.D. FSRDF	43,914	43,826	44,208
Other	3,789,583	3,851,503	4,123,368
Function 154	1,127,295	1,101,110	1,133,788
Function 155	309,359	1,200,714	613,614
Ex-Im	814,359	714,714	629,614
Other	(505,000)	486,000	(16,000)
Total 150	16,705,490	17,533,907	18,389,316

TABLE 2.—INTERNATIONAL AFFAIRS

[In thousands of dollars]

Budget authority	Fiscal year—		
	1996 actual	1997 estimate	1998 request
Multilateral assistance:			
Inter-American Dev. Bank	25,952	25,611	25,611
Fund for Special Operations	10,000	10,000	20,576
Inter-American Investment Corp.	.....	.....	.....
Subtotal: IADB	35,952	35,611	46,187
World Bank (IBRD)	28,190	.....	.....
Global Environment Facility	35,000	35,000	100,000
International Finance Corp.	60,900	6,656	.....
International Development Association	700,000	700,000	1,034,503
Asian Development Fund/Bank	113,222	113,222	163,222
African Development Fund	.....	.....	50,000
African Development Bank	.....	.....	.....
North American Development Bank	56,250	56,000	56,500
European Development Bank	70,000	11,916	35,779
Middle East Development Bank	.....	.....	(52,500)
Subtotal: MDBs	1,099,514	958,405	1,486,191
IO&P (Voluntary Contrib.)	285,000	330,450	365,000
Total: Multilateral Assistance	1,384,514	1,288,855	1,851,191
Bilateral assistance—USAID:			
Development Programs	1,617,306	1,132,500	998,000
Child Survival and Diseases Programs	.....	500,000	.....
Development Fund for Africa	.....	.....	700,000
Subtotal—Sustainable Development	1,617,306	1,632,500	1,698,000
International Disaster Assistance	180,951	190,000	190,000
Micro & Sm. Enterprise Dvlpt. Prog. Subsidy	1,500	1,500	1,500
Micro & Sm. Enterprise Dvlpt. Prog. Admin.	500	500	500
Urban/Environment Credit Subsidy	4,000	3,500	3,000
Urban/Environment Credit Administration	7,000	6,000	6,000
Foreign Service Retirement & Dis.	43,914	43,826	44,208
Operating Expenses	494,317	488,250	473,000
Operating Expenses—IG	30,163	30,000	29,047
Subtotal: Development Assistance	2,379,651	2,396,076	2,445,255
Economic Support Fund	2,321,400	2,343,000	2,497,600
International Fund for Ireland	19,600	19,600	.....
Economic Support Fund Total	2,341,000	2,362,600	2,497,600
Assistance for Eastern Europe and the Baltic States	522,000	475,000	492,000
Less Transfers	59,039	.....	.....
Total SEED	462,961	475,000	492,000
Assistance for the New Independent States of the Former Soviet Union	640,444	625,000	900,000
Less Transfers	122,483	48,700	.....
Total NIS	517,961	576,300	900,000
Subtotal: USAID after transfers	5,701,573	5,809,976	6,334,855
Bilateral assistance:			
Trade & Development Agency	48,994	45,000	43,000

TABLE 2.—INTERNATIONAL AFFAIRS—Continued

[In thousands of dollars]

Budget authority	Fiscal year—		
	1996 actual	1997 estimate	1998 request
Peacekeeping Operations	96,200	65,000	90,000
Non-Proliferation & Disarmament Fund	35,000	15,000	15,000
International Narcotics Control	134,955	213,000	230,000
Inter-American Foundation	19,986	20,000	22,000
African Development Foundation	11,496	11,500	14,000
Peace Corps	217,704	220,000	222,000
Migration & Refugee Assistance	670,983	650,000	650,000
Emergency Refugee & Migration Fund	50,000	50,000	50,000
Anti-Terrorism Assistance	15,983	18,000	19,000
Overseas Priv. Invest. Corp (OPIC)	.....	.....	.....
Loan Subsidy & Admin Expenses (non-add)	98,000	104,500	92,000
Non-credit activities	(92,540)	(130,500)	(158,000)
Total: Bilateral assistance	6,910,334	6,986,976	7,531,855
Military assistance:			
Military to Military Contact	.....	.....	.....
Int'l Military Education & Training	39,000	43,475	50,000
Counter-terrorism Assistance to Israel	50,000	50,000	.....
Relocation of facilities in Israel	.....	(2,000)	.....
Special Defense Acquisition Fund	(173,000)	(166,000)	(106,000)
Foreign Military Financing	3,351,743	3,315,000	3,340,250
Total: Military assistance BA	3,267,743	3,240,475	3,284,250
Export-Import Bank, subsidy and admin.	763,359	714,714	629,614
IMF, Structural Adjustment Facility	.....	.....	7,000
(IMF-New Arrangement to Borrow)	.....	.....	(3,521,000)
Debt restructuring:			
Debt Restructuring	10,000	12,000	22,000
Jordan Military Debt Forgiveness	.....	15,000	12,000
Multilateral Investment Fund-Enterprise for Americas	53,750	27,500	30,000
Total: Foreign Operations Subcommittee	12,389,700	12,285,520	13,367,910
Agriculture Subcommittee:			
P.L. 480			
Title I cargo preference	262,812	151,274	10,250
Title II grants	821,100	837,000	837,000
Title III grants	50,000	29,500	30,000
Total: Agriculture Subcommittee	1,133,912	1,017,774	877,250
Conduct of Foreign Affairs (153)	3,789,583	3,851,503	4,123,368
(Unassigned to Approp Committee)	(280,914)	(289,826)	(297,208)
Foreign Info & Exchange Act (154)	1,127,295	1,101,110	1,133,788
(Unassigned to Approp Committee)	1,000	2,000	48,000
Total: Appropriations Committee	18,720,404	18,543,733	19,751,524
Total: Appropriations-discretionary	18,427,490	18,254,907	19,451,316
Subfunctions 151, 152, 155 mandatories	(1,735,000)	(722,000)	(1,106,000)
Economic Asst Loan Liquidating Acct	.....	.....	.....
Misc. Trust Funds—A.I.D.	.....	.....	.....
North American Development Bank	.....	.....	.....
Housing Guaranty & other credit liquidating accounts	8,000	19,000	26,000
Housing Guaranty subsidy reestimate	.....	.....	.....
PSIP subsidy reestimate	.....	.....	.....
Debt Restructuring subsidy reestimate	22,000	.....	.....
Israeli loan guaranty pmt to OE	.....	.....	.....

TABLE 2.—INTERNATIONAL AFFAIRS—Continued

[In thousands of dollars]

Budget authority	Fiscal year—		
	1996 actual	1997 estimate	1998 request
Miscellaneous credit reform	(9,000)	.....	.....
Misc. Trust Funds Receipts—DOT	.....	.....	.....
Misc. Trust Funds Receipts—A.I.D.	(1,000)	(1,000)	(1,000)
A.I.D. Loan Repayments	.....	.....	.....
Foreign Currency Loan Repayments	(13,000)	(13,000)	(13,000)
Peace Corps Miscellaneous Trust Fund	1,000	1,000	1,000
OPIC liquidating account	.....	.....	.....
P.L. 480 Liquidating Acct	(572,000)	(540,000)	(483,000)
P.L. 480 Food for Progress	.....	.....	.....
P.L. 480 loans subsidy reestimate	.....	.....	.....
FMF Receipts	(661,000)	(637,000)	(535,000)
FMF liquidating account (pre-92, GRF)	(229,000)	(203,000)	(191,000)
FMF—Contract Authority	15,299,000	14,520,000	13,490,000
FMF—Liquidation of contract auth.	(14,747,000)	(13,760,000)	(13,400,000)
IMF quota	.....	.....	.....
Exchange stabilization fund	(778,000)	.....	.....
Ex-Im Liquidating Account	.....	.....	.....
Ex-Im subsidy reestimate	51,000	.....	.....
Treasury Loan Repayment (U.K.)	(106,000)	(108,000)	.....
Total International Affairs	16,705,490	17,533,907	18,396,316

NOTE: Totals for all years exclude debt restructuring located elsewhere in this table.

FY 1996 Notes: Africa and Child Survival Programs included in Development Programs; Development Programs and SEED account levels exclude a total of $31 million transferred to the African Development Foundation and Inter-American Foundation and $28.5 million used for Operating Expenses. Levels also reflect rescissions.

FY 1997 Notes: Development Program level excludes $31 million transferred to the African Development Foundation and Inter-American Foundation and $17.5 million transferred to Operating Expenses.

TABLE 3.—AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM TRENDS: FY 1995–FY 1998

[Obligations in thousands of dollars]

	1995 actual	1996 actual [1]	1997 estimate	1998 request
Development Programs	1,310,713	1,386,807	1,577,164	998,000
Child Survival and Disease Program	.....	.....	[2] 500,000	.....
Total Development Assistance	1,310,713	1,386,807	2,077,164	998,000
Sahel Development Program	1,295	535	.....	.....
Development Fund for Africa	828,127	123,814	30,775	700,000
Subtotal, Geographic & Central Programs	2,140,135	1,511,156	2,107,939	1,698,000
American Schools & Hospitals Abroad	.....	.....	.....	.....
International Disaster Assistance	205,105	165,552	235,111	190,000
African Disaster Assistance	163	.....	.....	.....
Private Sector Revolving Fund Liquidating	.....	.....	.....	.....
MSED Subsidy/Admin Expenses	1,910	1,557	2,000	2,000
Housing Guaranties Subsidy/Admin	26,921	10,657	9,666	9,000
Housing Guaranties Loan Limitation	.....	.....	.....	.....
Housing Guaranties Liquidating Account	67,785	63,927	66,267	66,000
Advanced Acq. of Property	100	100	100	.....
Subtotal, DA Program Funds	2,442.119	1,752,949	2,421,083	1,965,000
Operating Expenses	530,982	[3] 487,270	530,485	473,000
Oper. Exp.—Inspector General	36,064	30.548	34,000	29,047
Foreign Service Retirement & Dis	45,118	43,914	43,826	44,208
Total, A.I.D. Development Assistance	3,054,283	2,314,681	3,029,394	2,511,255
Economic Support Fund	2,728,655	2,307,073	2,587,290	2,497,000
Total Economic Support Fund	2,728,655	2,307,073	2,587,290	2,497,000
Special Assistant Initiatives	404,467	412,335	589,338	492,000
Philippines	.....	.....	.....	.....
Eastern Europe (SEED)	(404,467)	(412,335)	(589,338)	(492,000)
Of which-Bosnia Supplemental	.....	[4] (198,000)	.....	.....
Assistance of the New Independent States of the Former Soviet Union	731,467	546,482	875,235	900,000
Ukraine Trade Credit Program	16,605	.....	.....	.....
Central American Reconciliation Asst.	.....	.....	.....	.....
Demobilization and Transition Fund	13,907	3,000	.....	.....
Total, A.I.D. Economic Assistance	6,949,384	5,583,571	7,081,257	6,400,255

[1] FY 1996 levels have been adjusted to include rescissions required in P.L. 104–134. DA, ESF and NIS levels exclude a total of $284 million (of $355 million planned) in population programs using '96 appropriations require by law to be obligated at the rate of no more than 6.67% a month between July 1996 and September 1997.

[2] Excludes $100 million transferred to UNICEF.

[3] Excludes $25.5 million in Development assistance used for operating expenses.

[4] Includes $3 million to be used for USAID operating expenses and $3 million to be used for debt restructuring.

TABLE 4A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL APPROPRIATIONS—P.L. 480

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Bilateral assistance:												
Africa	541,312	12,000	.....	399,451	25,000	.....	51,775	.....	.....	5,030	6,016	1,040,584
Asia & Near East	205,013	2,616,200	.....	207,580	7,500	10,492	19,902	.....	.....	3,201,000	10,611	5,823,298
Europe & NIS	1,492	68,100	895,844	98,344	.....	400	24,405	.....	.....	53,850	13,256	1,155,691
Latin America & Caribbean	200,192	113,300	.....	152,526	19,000	57,098	31,107	.....	.....	2,000	8,717	583,940
Central PL 480[2]	.....	.....	.....	(36,801)	(1,500)	.....	.....	.....	.....	.....	.....	(38,301)
Global Programs, Field Spt. & Res.	594,286	.....	8,265	.....	.....	.....	.....	.....	.....	.....	.....	602,551
Humanitarian Response	61,268	.....	14,500	.....	.....	.....	.....	.....	.....	.....	.....	75,768
Program & Policy Coordination	7,703	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7,703
Other[2]	63,734	5,000	244,391	.....	.....	46,965	90,515	.....	59,400	30,463	400	540,868
Geographic & Central Programs	1,675,000	2,359,600	1,163,000	821,100	50,000	114,955	217,704	.....	59,400	3,292,343	39,000	9,792,102
[Eastern Europe]	.....	.....	(522,000)	.....	.....	.....	.....	.....	.....	.....	.....	(522,000)
[N.I.S.]	.....	.....	(641,000)	.....	.....	.....	.....	.....	.....	.....	.....	(641,000)
Rescissions	(1,209)	.....	(807)	.....	.....	.....	.....	.....	.....	.....	.....	(2,016)
Reappropriation	500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500
Transfers	(31,918)	(18,600)	(200,003)	.....	.....	18,200	.....	.....	.....	.....	.....	(232,321)
Subtotal	1,642,373	2,341,000	962,190	821,100	50,000	133,155	217,704	.....	59,400	3,292,343	39,000	9,558,265
International Disaster Assistance	180,951	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	180,951
Urban & Environmental Credit Subs	4,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4,000
Urban & Environmental Admin	7,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7,000
Micro & Small Ent Dev Credit Subsidy	1,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,500
Micro & Small Ent Dev Admin	500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500
Operating Expenses	468,750	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	468,750
Operating Expenses—I.G	30,163	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	30,163
Foreign Service Retirement	43,914	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	43,914
Total USAID	2,379,151	2,341,000	962,190	821,100	50,000	.....	.....	.....	.....	.....	.....	6,553,441
Other Bilateral Assistance	.....	.....	.....	.....	.....	133,155	217,704	1,226,917	59,400	3,292,343	39,000	4,968,519
Total: Bilateral	2,379,151	2,341,000	962,190	821,100	50,000	133,155	217,704	1,226,917	59,400	3,292,343	39,000	11,521,960
Multilateral Assistance:												
MDB's	.....	.....	.....	.....	.....	.....	.....	1,099,513	.....	.....	.....	1,099,513

IO & P	.....	.....	.....	.....	.....	.....	.....	285,000	.....	.....	.....	285,000
Total: Multilateral	.....	.....	.....	.....	.....	.....	.....	1,384,513	.....	.....	.....	1,384,513
Total Economic Assistance	2,379,151	2,341,000	962,190	821,100	50,000	133,155	217,704	2,611,430	.....	.....	.....	9,515,730
Total Military Assistance	.....	.....	.....	.....	.....	.....	.....	(123,000)	59,400	3,292,343	39,000	3,390,743
Total Econ. & Mil. Assist	2,379,151	2,341,000	962,190	821,100	50,000	133,155	217,704	2,488,430	59,400	3,292,343	39,000	12,906,473
Africa:												
Angola	10,999	.....	.....	44,077	.....	.....	.....	.....	.....	.....	.....	55,076
Benin	9,716	.....	.....	3,468	.....	.....	1,679	.....	.....	.....	281	15,144
Botswana	.....	.....	.....	.....	.....	.....	1,776	.....	.....	.....	454	2,230
Burkina	.....	.....	.....	12,429	.....	.....	965	.....	.....	.....	.....	13,394
Burundi	2,498	.....	.....	.....	.....	.....	.....	.....	.....	.....	71	2,569
Cameroon	.....	.....	.....	349	.....	.....	3,189	.....	.....	.....	83	3,621
Cape Verde	.....	.....	.....	6,208	.....	.....	1,008	.....	.....	.....	64	7,280
Central African Republic	150	.....	.....	.....	.....	.....	946	.....	.....	.....	110	1,206
Chad	.....	.....	.....	4,795	.....	.....	1,101	.....	.....	.....	.....	5,896
Comoros	.....	.....	.....	.....	.....	.....	54	.....	.....	.....	64	118
Congo	.....	.....	.....	.....	.....	.....	899	.....	.....	.....	162	1,061
Cote d'Ivoire	.....	.....	.....	.....	.....	.....	1,465	.....	.....	.....	151	1,616
Djibouti	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	150	150
Eritrea	7,700	.....	.....	4,275	.....	.....	888	.....	.....	.....	261	13,124
Ethiopia	28,724	.....	.....	50,253	25,000	.....	1,069	.....	.....	.....	327	105,373
Gabon	.....	.....	.....	.....	.....	.....	2,493	.....	.....	.....	.....	2,493
Gambia	600	.....	.....	2,995	.....	.....	1,200	.....	.....	.....	.....	4,795
Ghana	33,199	.....	.....	12,475	.....	.....	2,345	.....	.....	.....	257	48,276
Guinea	11,569	.....	.....	2,069	.....	.....	1,928	.....	.....	.....	35	15,601
Buinea-Bissau	4,392	.....	.....	1,733	.....	.....	1,110	.....	.....	.....	88	7,323
Kenya	10,832	.....	.....	2,260	.....	.....	2,329	.....	.....	.....	297	15,718
Lesotho	.....	.....	.....	.....	.....	.....	2,005	.....	.....	.....	72	2,077
Liberia	3,494	.....	.....	55,662	.....	.....	.....	.....	.....	.....	.....	59,156
Madagascar	15,937	.....	.....	3,670	.....	.....	880	.....	.....	.....	102	20,589
Malawi	29,399	.....	.....	.....	.....	.....	1,744	.....	.....	.....	154	31,297
Mali	28,041	.....	.....	.....	.....	.....	3,101	.....	.....	.....	155	31,297
Mauritania	.....	.....	.....	835	.....	.....	1,359	.....	.....	.....	.....	2,194
Mozambique	31,909	.....	.....	13,316	.....	.....	.....	.....	.....	.....	203	45,428
Namibia	5,000	.....	.....	.....	.....	.....	1,691	.....	.....	.....	190	6,881
Niger	3,280	.....	.....	690	.....	.....	2,334	.....	.....	.....	11	6,315

TABLE 4A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL APPROPRIATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Nigeria	1,670											1,670
Rwanda	4,034			114,085							243	118,362
Sao Tome				733			435				75	1,243
Senegal	17,260			1,213			3,040				637	22,150
Seychelles											31	31
Sierra Leone				26,614							134	26,748
Somalia	3,750			5,361								9,111
South Africa	117,539						505				466	118,510
Sudan				23,521								23,521
Swaziland							782				50	832
Tanzania	7,436						1,677				126	9,239
Togo							1,861					1,861
Uganda	31,928			6,365			1,267				189	39,749
Zambia	11,719						1,339				99	13,156
Zimbabwe	14,556						1,312				224	16,092
Africa Regional	56,379	12,000								5,030		73,409
Initiative for Southern Africa	24,925											24,925
Redso/E	4,900											4,900
Redso/W	7,775											7,775
Total	541,312	12,000		399,451	25,000		51,775			5,030	6,016	1,040,584
Asia & Near East:												
Afghanistan				15,200								15,200
Algeria											75	75
Bahrain											108	108
Bangladesh	34,105			34,190	7,500						326	76,121
Cambodia	500	29,500								1,000	403	31,403
China							696					696
Egypt		815,000		603						1,300,000	1,009	2,116,612
Fiji							1,457					1,457
India	29,775			131,380							357	161,512
Indonesia	36,890										577	37,467
Iraq (Northern)				7,212								7,212

Israel	.....	1,200,000	.....	.....	.....	.....	.....	.....	.....	1,800,000	.....	3,000,000
Jordan	1,600	7,200	.....	.....	.....	.....	.....	.....	.....	100,000	1,202	110,002
Kiribati	.....	.....	.....	.....	.....	.....	507	.....	.....	.....	.....	507
Laos	.....	2,000	.....	.....	.....	2,000	.....	.....	.....	.....	.....	4,000
Lebanon	.....	2,000	.....	.....	.....	.....	.....	.....	.....	.....	474	2,474
Malaysia	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	613	613
Maldives	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	80	80
Micronesia	.....	.....	.....	.....	.....	.....	1,631	.....	.....	.....	.....	1,631
Mongolia	.....	4,000	.....	.....	.....	.....	993	.....	.....	.....	70	5,063
Morocco	14,758	.....	.....	.....	.....	.....	2,063	.....	.....	.....	830	17,651
Nepal	13,883	.....	.....	2,542	.....	.....	2,237	.....	.....	.....	140	18,802
North Korea	.....	.....	.....	6,287	.....	.....	.....	.....	.....	.....	.....	6,287
Oman	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	119	119
Pakistan	.....	.....	.....	3,993	.....	2,500	.....	.....	.....	.....	.....	6,493
Papua New Guinea	.....	.....	.....	.....	.....	.....	1,491	.....	.....	.....	162	1,653
Phillippines	38,225	.....	.....	4,846	.....	.....	1,712	.....	.....	.....	1,210	45,993
Singapore	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	20	20
Solomon Islands	.....	.....	.....	.....	.....	.....	1,105	.....	.....	.....	85	1,190
South Korea	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	9	9
South Pacific	.....	14,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	14,000
Sri Lanka	11,705	.....	.....	.....	.....	.....	595	.....	.....	.....	179	12,479
Thailand	.....	.....	.....	.....	.....	1,500	1,919	.....	.....	.....	1,445	4,864
Tonga	.....	.....	.....	.....	.....	.....	923	.....	.....	.....	85	1,008
Tunisia	.....	.....	.....	.....	.....	.....	853	.....	.....	.....	816	1,669
Vanuatu	.....	.....	.....	.....	.....	.....	655	.....	.....	.....	88	743
West Bank/Gaza	.....	75,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	75,000
Western Somoa	.....	.....	.....	.....	.....	.....	1,065	.....	.....	.....	79	1,144
Yemen	.....	.....	.....	1,327	.....	.....	.....	.....	.....	.....	50	1,377
Asia/Near East Regional	20,572	12,500	.....	.....	.....	4,492	.....	.....	.....	.....	.....	37,564
East Asia Regional	3,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,000
Total	205,013	2,161,200	.....	207,580	7,500	10,492	19,902	.....	.....	3,201,000	10,611	5,823,298
Europe & Nis:												
Albania	.....	.....	19,900	.....	.....	.....	1,245	.....	.....	.....	432	21,577
Armenia	.....	.....	75,525	.....	.....	.....	1,006	.....	.....	.....	.....	76,531
Azerbaijan	.....	.....	11,000	.....	.....	.....	.....	.....	.....	.....	.....	11,000
Baltics	.....	.....	.....	.....	.....	.....	2,183	.....	.....	750	.....	2,933
Belarus	.....	.....	4,600	.....	.....	.....	.....	.....	.....	.....	279	4,879
Bosnia-Hercegovina	.....	.....	146,950	98,344	.....	.....	.....	.....	.....	.....	259	245,553

TABLE 4A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL APPROPRIATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Bulgaria			27,865				1,155				708	29,728
Croatia			14,295								218	14,513
Czech Republic			3,687				1,060				795	5,542
Cyprus		15,000										15,000
Estonia											386	386
Georgia			21,180								302	21,482
Greece									(224,000)		54	54
Hungary			15,096				1,219				1,034	17,349
Ireland		19,600										19,600
Kazakhstan			19,433				1,544				388	21,365
Kirghizstan			11,570				1,073				231	12,874
Lativa			3,380								388	3,768
Lithuania			7,590								498	8,088
Macedonia			13,160								249	13,409
Malta											30	30
Moldova			20,740				974				273	21,987
Poland			44,445				2,721				1,021	48,187
Portugal											769	769
Romania			28,680				1,271				758	30,709
Russia			108,140				3,406				760	112,306
Slovak Republic			15,294				1,374				473	17,141
Slovenia			763								253	1,016
Spain											49	49
Tajikistan			3,370									3,370
Turkey		33,500				400			(320,000)		1,095	34,995
Turkmenistan			2,245				943				213	3,401
Ukraine			141,100				2,136				1,019	144,255
Uzbekistan			8,905				1,095				293	10,293
Eastern Europe Regional	1,300		53,828									55,128
Western Europe											29	29
N.I.S. Regional	192		73,103									73,295
Partnership for Peace										53,100		53,100

Total	1,492	68,100	895,844	98,344	.....	400	24,405	.....	(554,000)	53,850	13,256	1,155,691
Latin America & Caribbean:												
Argentina	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	588	588
The Bahamas	.....	.....	.....	.....	.....	700	.....	.....	.....	.....	116	816
Belize	.....	.....	.....	.....	.....	.....	1,022	.....	.....	.....	217	1,239
Bolivia	20,555	15,000	.....	27,277	.....	15,000	2,095	.....	.....	.....	547	80,474
Brazil	4,677	.....	.....	.....	.....	290	.....	.....	.....	.....	200	5,167
Chile	.....	.....	.....	.....	.....	.....	1,654	.....	.....	.....	301	1,955
Columbia	118	.....	.....	.....	.....	16,000	.....	.....	.....	.....	95	16,213
Costa Rica	.....	.....	.....	270	.....	.....	1,671	.....	.....	.....	196	2,137
Dominican Republic	7,163	.....	.....	4,732	.....	.....	2,706	.....	.....	.....	507	15,108
Eastern Caribbean	1,080	.....	.....	.....	.....	.....	2,516	.....	.....	2,000	507	6,103
Ecuador	9,002	.....	.....	727	.....	500	2,409	.....	.....	.....	547	13,185
El Salvador	21,773	.....	.....	4,456	.....	.....	993	.....	.....	.....	535	27,757
Guatemala	9,917	.....	.....	16,781	.....	2,000	2,818	.....	.....	.....	.....	31,516
Guyana	2,198	.....	.....	316	.....	.....	471	.....	.....	.....	220	3,205
Haiti	23,765	60,000	.....	29,275	10,000	.....	458	.....	.....	.....	169	123,667
Honduras	12,895	.....	.....	6,848	5,000	.....	2,628	.....	.....	.....	500	27,871
Jamaica	9,152	.....	.....	2,200	.....	700	1,886	.....	.....	.....	469	14,407
Mexico	2,241	.....	.....	.....	.....	2,200	.....	.....	.....	.....	992	5,433
Nicaragua	14,034	.....	.....	2,474	4,000	.....	1,568	.....	.....	.....	.....	22,076
Panama	3,210	.....	.....	588	.....	.....	1,184	.....	.....	.....	.....	4,982
Paraguay	1,050	.....	.....	.....	.....	.....	3,096	.....	.....	.....	155	4,301
Peru	17,045	3,000	.....	56,582	.....	15,500	.....	.....	.....	.....	380	92,507
Suriname	.....	.....	.....	.....	.....	.....	732	.....	.....	.....	85	817
Uruguay	.....	.....	.....	.....	.....	.....	1,200	.....	.....	.....	380	1,580
Venezuela	.....	.....	.....	.....	.....	500	.....	.....	.....	.....	428	928
Caribbean Regional	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	83	83
PACAMS	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500	500
ROCAP	10,914	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	10,914
LAC Regional	29,404	28,300	.....	.....	.....	3,708	.....	.....	.....	.....	.....	61,412
ICITAP/AOJ	.....	7,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	7,000
Total	200,192	113,300	.....	152,526	19,000	57,098	31,107	.....	.....	2,000	8,717	583,940
Other:												
Administrative Costs	.....	.....	.....	.....	.....	.....	90,515	.....	.....	23,250	400	114,165
Loan subsidy	.....	.....	.....	.....	.....	.....	.....	.....	59,400	.....	.....	59,400
International Criminal Justice	.....	5,000	13,200	.....	.....	(18,200)	.....	.....	.....	.....	.....	18,200

TABLE 4A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL APPROPRIATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Law Enforcement Training						7,000						7,000
International Organizations						7,710						7,710
Interregional Aviation Support						25,755						25,755
FMF: Demining										7,213		7,213
Inter-American Foundation	20,000											20,000
African Development Foundation	11,500											11,500
Operating Expenses	25,067		3,500									28,567
Debt Reduction			3,000									3,000
Unallocated[3]	7,167		224,691									231,858
Program Development & Support						6,500						6,500
Central P.L. 480:												
Stock Adjustment				(17,998)								(17,998)
PVO Fallout				(13,500)								(13,500)
Transport Costs				(328,078)								(328,078)
Carryin				(18,576)	(11,700)							(30,276)
PVO Administration				25,000								25,000
Transfer from Title I				(11,600)								(11,600)
Transfer to Title II					10,100							10,100
Transfer from Title III				(10,127)								(10,127)
Farmer to Farmer				10,000	100							10,100
Total Central P.L. 480				(36,801)	(1,500)							(38,301)
Other Bilateral Assistance:												
Debt Restructuring								10,000				10,000
Trade & Development Agency								48,994				48,994
Inter-American Foundation								19,986				19,986
African Development Foundation								11,496				11,496
Migration & Refugee Assistance								670,983				670,983
Emergency Refugee & Migration Fund								50,000				50,000
Anti-Terrorism Assistance								15,983				15,983
Peacekeeping Operations								96,200				96,200
Non-Proliferation & Disarmament								35,000				35,000
P.L. 480 Title I								262,815				262,815

OPIC loan subsidy & admin exp								98,000				98,000
OPIC Insurance activities								(92,540)				(92,540)
Total Other Bilateral								1,226,917				1,226,917
Other Military Assistance:												
Special Defense Acquisition Fund								(173,000)				(173,000)
Counter-terrorism Asst. to Israel								50,000				50,000
Total Other Military								(123,000)				(123,000)

[1] DA bureau and country levels in this series of tables exclude attributions of central programs
[2] See last page of this table for details
[3] Unallocated DA funds are for special programs such as Dairy Development and Polio Eradication.

TABLE 4B.—FY 1997 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL APPROPRIATIONS—P.L. 480

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Bilateral Assistance Summary:												
Africa	665,064	14,000	.....	204,357	28,400	.....	53,443	.....	.....	7,750	7,325	980,339
Asia & Near East	252,887	2,188,500	3,000	130,673	.....	10,000	20,745	.....	.....	3,131,000	11,775	5,748,580
Europe & NIS	4,400	57,900	1,093,500	27,007	.....	500	24,980	.....	.....	60,000	14,750	1,283,037
Latin America & Caribbean	273,488	102,200	.....	104,363	10,000	116,200	30,942	.....	.....	2,000	9,350	648,543
Central PL 480	.....	.....	.....	370,600	(8,900)	.....	.....	.....	.....	.....	.....	361,700
Global Programs, Field Spt. & Res.	344,873	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	344,873
Humanitarian Response	65,439	.....	3,500	.....	.....	.....	.....	.....	.....	.....	.....	68,939
Program & Policy Coordination	6,739	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6,739
Other[2]	19,610	.....	.....	.....	.....	86,300	89,890	.....	60,000	23,250	275	279,325
Geographic & Central Programs	1,632,500	2,362,600	1,100,000	837,000	29,500	213,000	220,000	.....	60,000	3,224,000	43,475	9,722,075
(Eastern Europe)	.....	.....	(475,000)	.....	.....	.....	.....	.....	.....	.....	.....	(475,000)
(N.I.S.)	.....	.....	(625,000)	.....	.....	.....	.....	.....	.....	.....	.....	(625,000)
Transfers.												
Inter-American Foundation	20,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	20,000
African Development Foundation	11,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	11,500
Operating Expenses	17,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	17,500
UNICEF	100,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	100,000
Subtotal	1,781,500	2,362,600	1,100,000	837,000	29,500	213,000	220,000	.....	60,000	3,224,000	43,475	9,871,075
International Disaster Assistance	190,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	190,000
Urban & Environmental Credit Subs	3,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,500
Urban & Environmental Admin	6,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6,000
Micro & Small Ent Dev Credit Subs	1,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,500
Micro & Small Ent Dev Admin	500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500
Operating Expenses	488,250	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	488,250
Operating Expenses—I.G	30,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	30,000
Foreign Service Retirement	43,826	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	43,826
Total USAID (Excludes Transfers)	2,396,076	2,362,600	1,100,000	837,000	29,500	.....	.....	.....	.....	.....	.....	6,725,176
Other Bilateral Assistance	.....	.....	.....	.....	.....	213,000	220,000	1,026,774	60,000	3,224,000	43,475	4,787,249

Total: Bilateral	2,396,076	2,362,600	1,100,000	837,000	29,500	213,000	220,000	1,026,774	60,000	3,224,000	43,475	11,512,425
Multilateral Assistance:												
MDB's								958,405				958,405
IO & P								333,450				333,450
Total: Multilateral								1,291,855				1,291,855
Total Economic Assistance	2,396,076	2,362,600	1,100,000	837,000	29,500	213,000	220,000	2,318,629				9,476,805
Total Military Assistance								(118,000)	60,000	3,224,000	43,475	3,209,475
Total Econ. & Mil. Assist	2,396,076	2,362,600	1,100,000	837,000	29,500	213,000	220,000	2,200,629	60,000	3,224,000	43,475	12,686,280
Africa:												
Angola	11,500	5,000		18,521							125	35,146
Benin	13,800			1,962			1,662				350	17,774
Botswana							1,101				450	1,551
Burkina Faso				13,225			1,464					14,689
Burundi	1,500											1,500
Cameroon							3,085				100	3,185
Cape Verde				2,626			923				100	3,649
Central African Republic							10				150	160
Chad							984				25	1,009
Comoros											75	75
Congo							1,103				175	1,278
Cote d'Ivoire							1,703				150	1,853
Djibouti											100	100
Eritrea	9,500			478	15,000		1,176				375	26,529
Ethiopia	37,300			25,524	9,400		1,250				400	73,874
Gabon							2,614					2,614
Gambia	265			2,024			1,252					3,541
Ghana	36,000			12,047			2,529				260	50,836
Guinea	12,500			441			2,050				150	15,141
Guinea-Bissau	4,100						1,079				125	5,304
Kenya	19,500						3,119				300	22,919
Lesotho				432			2,237				75	2,744
Liberia	7,500			8,710								16,210
Madagascar	16,250			3,454			1,047				100	20,851
Malawi	33,562						1,841				225	35,628
Mali	30,050			173			3,002				150	33,375

TABLE 4B.—FY 1997 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL APPROPRIATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Mauritania	.....	.....	.....	1,611	.....	.....	1,428	.....	.....	.....	.....	3,039
Mauritius	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	25	25
Mozambique	31,000	.....	.....	17,983	4,000	.....	.....	.....	.....	.....	175	53,158
Namibia	8,000	.....	.....	.....	.....	.....	1,706	.....	.....	.....	200	9,906
Niger	3,300	.....	.....	.....	.....	.....	2,476	.....	.....	.....	.....	5,776
Nigeria	7,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7,000
Rwanda	4,500	.....	.....	66,721	.....	.....	.....	.....	.....	.....	300	71,521
Sao Tome	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Senegal	21,200	.....	.....	.....	.....	.....	3,138	.....	.....	.....	650	24,988
Seychelles	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Sierra Leone	.....	.....	.....	6,174	.....	.....	.....	.....	.....	.....	115	6,289
Somalia	4,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4,000
South Africa	77,500	.....	.....	.....	.....	.....	1,257	.....	.....	.....	700	79,457
Sudan	.....	.....	.....	9,689	.....	.....	.....	.....	.....	.....	.....	9,689
Swaziland	.....	.....	.....	.....	.....	.....	177	.....	.....	.....	75	252
Tanzania	18,700	.....	.....	.....	.....	.....	1,719	.....	.....	.....	225	20,644
Togo	.....	.....	.....	.....	.....	.....	1,867	.....	.....	.....	25	1,892
Uganda	40,400	.....	.....	12,562	.....	.....	1,353	.....	.....	.....	300	54,615
Zambia	16,600	.....	.....	.....	.....	.....	1,724	.....	.....	.....	150	18,474
Zimbabwe	16,900	.....	.....	.....	.....	.....	1,368	.....	.....	.....	275	18,543
Greater Horn of Africa Initiative (GHAI)	15,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Initiative for Southern Africa (ISA)	38,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	38,000
Africa Regional	63,485	9,000	.....	.....	.....	.....	.....	.....	.....	4,750	.....	77,235
REDSO/E	4,800	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4,800
REDSO/W	14,595	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	14,595
Africa Crisis Response Force	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,000	.....	3,000
Special Concerns	46,757	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	46,757
Total	665,064	14,000	.....	204,357	28,400	.....	53,443	.....	.....	7,750	7,325	???,339
Asia & Near East:												
Afghanistan	.....	.....	.....	13,600	.....	.....	.....	.....	.....	.....	.....	13,600
Algeria	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Bahrain	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	125	125

Bangladesh	47,413			20,609							300	68,322
Cambodia		35,000								1,000	500	36,500
China							891					891
Egypt		815,000								1,300,000	1,000	2,116,000
Fiji							804					804
India	49,350			89,868							400	139,618
Indonesia	41,500										600	42,100
Iraq (Northern)		1,500		6,596								8,096
Israel		1,200,000								1,800,000		3,000,000
Jordan	4,500	10,000					1,038			30,000	1,600	47,138
Kiribati							589					589
Laos						2,500						2,500
Lebanon		12,000									550	12,550
Malaysia											600	600
Maldives											100	100
Micronesia							1,587					1,587
Mongolia		7,000	3,000				1,056				325	11,381
Morocco	15,200						2,244				800	18,244
Nepal	19,600						2,368				200	22,168
Oman											150	150
Pakistan						2,500						2,500
Papua New Guinea							1,937				200	2,137
Philippines	48,450						2,184				1,250	51,884
Solomon Islands							1,245				150	1,395
South Pacific		14,000										14,000
Sri Lanka	3,000						420				200	3,620
Thailand						3,000	1,443				1,500	5,943
Tonga							1,087				100	1,187
Tunisia							5				800	805
Vanuatu							812				100	912
West Bank/Gaza		75,000										75,000
Western Somoa							1,036				100	1,136
Yemen											50	50
Asia/Near East Regional	23,874	19,000				2,000						44,874
Total	252,887	2,188,500	3,000	130,673		10,000	20,745			3,131,000	11,775	5,748,580
Europe & NIS:												
Albania			27,000				1,378				600	28,978
Armenia			95,000				1,104					96,104

TABLE 4B.—FY 1997 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL APPROPRIATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Azerbaijan			16,430									16,430
Baltics							2,115					2,115
Belarus			5,010								300	5,310
Bosnia		1,300	216,300	22,425							500	240,525
Bulgaria			31,000				1,652				800	33,452
Croatia			11,000								350	11,350
Cyprus		15,000										15,000
Czech Republic							481				800	1,281
Estonia											500	500
Georgia			25,770								275	26,045
Greece									(122,500)		25	25
Hungary			15,000				428				1,000	16,428
Ireland		19,600										19,600
Kazakhstan			35,745				1,651				400	37,796
Kirghizstan			20,050				1,116				250	21,416
Latvia			3,000								500	3,500
Lithuania			7,000								500	7,500
Macedonia (FYR)			16,000								300	16,300
Malta											100	100
Moldova			23,140				1,167				250	24,557
Poland			40,000				2,608				1,000	43,608
Portugal											800	800
Romania			33,000				1,286				800	35,086
Russia			95,440				3,898				800	100,138
Slovak Republic			15,000				1,535				600	17,135
Slovenia											400	400
Tajikistan			4,445	4,582								9,027
Turkey	4,400	22,000				500			(175,000)		1,400	28,300
Turkmenistan			4,460				930				250	5,640
Ukraine			225,000				2,411				1,000	228,411
Uzbekistan			21,410				1,220				250	22,880
Eastern Europe Regional			60,700						(242,500)			60,700
Partnership for Peace										60,000		60,000

N.I.S. Regional	.....	.....	46,600	.....	.....	.....	.....	.....	.....	.....	.....	46,600
Total	4,400	57,900	1,093,500	27,007	.....	500	24,980	.....	.....	60,000	14,750	1,283,037
Latin America & Caribbean												
Argentina	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	600	600
The Bahamas	.....	.....	.....	.....	.....	1,000	.....	.....	.....	.....	100	1,100
Belize	.....	.....	.....	.....	.....	.....	998	.....	.....	.....	250	1,248
Bolivia	28,541	.....	.....	21,390	.....	45,000	2,259	.....	.....	.....	500	97,690
Brazil	12,880	.....	.....	.....	.....	500	.....	.....	.....	.....	225	13,605
Chile	.....	.....	.....	.....	.....	.....	1,284	.....	.....	.....	400	1,684
Colombia	.....	.....	.....	.....	.....	30,000	.....	.....	.....	.....	600	30,600
Costa Rica	.....	.....	.....	.....	.....	.....	977	.....	.....	.....	150	1,127
Dominican Republic	11,028	.....	.....	.....	.....	.....	2,498	.....	.....	.....	500	14,026
Ecuador	12,082	.....	.....	.....	.....	350	2,676	.....	.....	.....	425	15,533
El Salvador	29,013	.....	.....	.....	.....	.....	1,275	.....	.....	.....	450	30,738
Guatemala	21,589	.....	.....	11,902	.....	2,000	2,460	.....	.....	.....	225	38,176
Guyana	2,763	.....	.....	.....	.....	.....	734	.....	.....	.....	175	3,672
Haiti	.....	72,000	.....	14,129	10,000	.....	944	.....	.....	.....	300	97,373
Honduras	21,151	.....	.....	4,673	.....	.....	2,540	.....	.....	.....	425	28,789
Jamaica	11,248	.....	.....	.....	.....	750	1,873	.....	.....	.....	500	14,371
Mexico	15,216	.....	.....	.....	.....	8,000	.....	.....	.....	.....	1,000	24,216
Nicaragua	20,260	.....	.....	1,215	.....	.....	1,633	.....	.....	.....	150	23,258
Panama	2,740	.....	.....	.....	.....	.....	1,519	.....	.....	.....	.....	4,259
Paraguay	5,035	.....	.....	.....	.....	.....	2,997	.....	.....	.....	200	8,232
Peru	25,329	.....	.....	51,054	.....	23,000	.....	.....	.....	.....	450	99,833
Suriname	.....	.....	.....	.....	.....	.....	917	.....	.....	.....	100	1,017
Trinidad/Tobago	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	100	100
Uruguay	.....	.....	.....	.....	.....	.....	821	.....	.....	.....	275	1,096
Venezuela	.....	.....	.....	.....	.....	600	.....	.....	.....	.....	350	950
Caribbean Regional	.....	.....	.....	.....	.....	.....	2,535	.....	.....	2,000	400	4,935
PACAMS	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500	500
ROCAP	10,660	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	10,660
LAC Regional	43,953	22,700	.....	.....	.....	5,000	.....	.....	.....	.....	.....	71,653
ADJ/ICITAP	.....	7,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	7,500
Andean Narcotics initiative	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total	273,488	102,200	.....	104,363	10,000	116,200	30,942	.....	.....	2,000	9,350	648,543

TABLE 4B.—FY 1997 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL APPROPRIATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Other:												
Administrative Costs							89,890			23,250	275	113,415
Loan subsidy									60,000			60,000
International Criminal Justice						20,000						20,000
Law Enforcement Training						9,000						9,000
Systems Support and Upgrades						6,000						6,000
International Organizations						12,000						12,000
Interregional Aviation Support						31,500						31,500
Special Concerns[3]	17,110											17,110
International Fund for Agr. Dev. (IFAD)	2,500											2,500
Program Dev. and Support						7,800						7,800
Central P.L. 480:												
Reserve				342,427								342,427
Stock Adjustment				(18,827)								(18,827)
Farmer to Farmer				10,798	100							10,898
PVO Administration				28,000								28,000
Transport Costs				(309,019)								(309,019)
Transfer to Title III				9,000								9,000
Transfer from Title II					(9,000)							(9,000)
Transfer from Title I				(798)								(798)
Total Central P.L. 480				370,600	(8,900)							361,700
Other Bilateral Assistance:												
Debt Restructuring								27,000				27,000
Trade & Development Agency								45,000				45,000
Inter-American Foundation								20,000				20,000
African Development Foundation								11,500				11,500
Migration & Refugee Assistance								650,000				650,000
Emergency Refugee & Migration Fund								50,000				50,000
Anti-Terrorism Assistance								18,000				18,000
Peacekeeping Operations								65,000				65,000
Non-Proliferation & Disarmament								15,000				15,000
P.L 480 Tile I								151,274				151,274

OPIC loan subsidy & admin exp.								104,500				104,500
OPIC Insurance activities								(130,500)				(130,500)
Total Other Bilateral								1,026,774				1,026,774
Other Military Assistance:												
Relocation of Facilities in Israel								(2,000)				(2,000)
Counter-terrorism Assistance to Israel								50,000				50,000
Special Defense Acquisition Fund								(166,000)				(166,000)
Total Other Military								(118,000)				(118,000)

[1] DA bureau and country levels in this series of tables include attributions of central programs
[2] See last page of this table for details
[3] Special Concerns Includes funds yet to be allocated for special program areas such as Vitamin A, orphans, victims of war, etc.

TABLE 4C.—FY 1998 U.S. ECONOMIC & MILITARY ASSISTANCE—REQUEST—P.L. 480

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Bilateral Assistance Summary:												
Africa	700,000	25,000	.....	262,147	19,900	.....	52,951	.....	.....	10,000	8,015	1,078,013
Asia & Near East	310,000	2,211,500	.....	104,522	.....	10,000	20,887	.....	.....	3,146,000	13,100	5,816,009
Europe & NIS	4,000	84,600	1,392,000	11,407	.....	500	24,673	.....	.....	70,000	18,300	1,605,480
Latin America & Caribbean	273,500	116,000	.....	101,143	10,000	132,700	29,903	.....	.....	3,000	10,250	676,496
Central PL 480	.....	.....	.....	357,781	100	.....	.....	.....	.....	.....	.....	357,881
Global Programs, Field Spt. & Res	343,800	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	343,800
Humanitarian Response	57,700	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	57,700
Program & Policy Coordination	6,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6,500
Other[2]	2,500	60,500	.....	.....	.....	86,800	93,586	.....	66,000	45,250	335	354,971
Geographic & Central Programs	1,698,000	2,497,600	1,392,000	837,000	30,000	230,000	222,000	.....	66,000	3,274,250	50,000	10,296,850
(Africa Fund)	(700,000)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	(700,000)
(Eastern Europe)	.....	.....	(492,000)	.....	.....	.....	.....	.....	.....	.....	.....	(492,000)
(N.I.S.)	.....	.....	(900,000)	.....	.....	.....	.....	.....	.....	.....	.....	(900,000)
International Disaster Assistance	190,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	190,000
Urban & Environmental Credit Subsidy	3,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,000
Urban & Environmental Admin	6,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6,000
Micro & Small Ent Dev Credit Subs	1,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,500
Micro & Small Ent Dev Admin	500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500
Operating Expenses	473,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	473,000
Operating Expenses—I.G	29,047	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	29,047
Foreign Service Retirement	44,208	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	44,208
Total USAID	2,445,255	2,497,600	1,392,000	837,000	30,000	.....	.....	.....	.....	.....	.....	7,201,855
Other Bilateral Assistance	.....	.....	.....	.....	.....	230,000	222,000	911,250	66,000	3,274,250	50,000	4,753,500
Total: Bilteral	2,445,255	2,497,600	1,392,000	837,000	30,000	230,000	222,000	911,250	66,000	3,274,250	50,000	11,955,355
Multilateral Assistance:												
MDB's	.....	.....	.....	.....	.....	.....	.....	1,486,191	.....	.....	.....	1,486,191
IO & P	.....	.....	.....	.....	.....	.....	.....	365,000	.....	.....	.....	365,000
Total: Multilateral	.....	.....	.....	.....	.....	.....	.....	1,851,191	.....	.....	.....	1.851,191

Total Economic Assistance	2,445,255	2,497,600	1,392,000	837,000	30,000	230,000	222,000	2,762,441	.....	.....	.....	10,416,296
Total Military Assistance	.....	.....	.....	.....	.....	.....	.....	(106,000)	66,000	3,274,250	50,000	3,390,250
Total Econ. & Mil. Assist	2,445,255	2,497,600	1,392,000	837,000	30,000	230,000	222,000	2,656,441	66,000	3,274,250	50,000	13,806,546
Africa:												
Angola	12,800	10,000	.....	22,594	.....	.....	.....	.....	.....	.....	200	45,594
Benin	16,200	.....	.....	1,904	.....	.....	1,682	.....	.....	.....	350	20,136
Botswana	.....	.....	.....	.....	.....	.....	664	.....	.....	.....	500	1,164
Burkina Faso	.....	.....	.....	9,689	.....	.....	1,576	.....	.....	.....	.....	11,265
Burundi	2,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2,000
Cameroon	.....	.....	.....	.....	.....	.....	2,809	.....	.....	.....	125	2,934
Cape Verde	.....	.....	.....	2,805	.....	.....	844	.....	.....	.....	100	3,749
Central African Republic	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	150	150
Chad	.....	.....	.....	.....	.....	.....	997	.....	.....	.....	50	1,047
Comoros	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Congo	.....	.....	.....	.....	.....	.....	1,122	.....	.....	.....	175	1,297
Cote d'Ivoire	.....	.....	.....	.....	.....	.....	1,715	.....	.....	.....	150	1,865
Djibouti	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	100	100
East Africa Regional	.....	.....	.....	.....	.....	.....	.....	.....	.....	5,000	.....	5,000
Eritrea	10,500	.....	.....	3,178	5,000	.....	1,311	.....	.....	.....	400	20,389
Ethiopia	48,285	.....	.....	24,453	9,900	.....	1,389	.....	.....	.....	450	84,477
Gabon	.....	.....	.....	.....	.....	.....	2,450	.....	.....	.....	.....	2,450
Gambia	.....	.....	.....	.....	.....	.....	1,196	.....	.....	.....	.....	1,196
Ghana	38,400	.....	.....	12,672	.....	.....	2,411	.....	.....	.....	285	53,768
Guinea	14,000	.....	.....	986	.....	.....	2,173	.....	.....	.....	150	17,309
Guinea-Bissau	2,500	.....	.....	562	.....	.....	1,087	.....	.....	.....	125	4,274
Kenya	20,000	.....	.....	5,000	.....	.....	3,020	.....	.....	.....	400	28,420
Lesotho	.....	.....	.....	.....	.....	.....	2,255	.....	.....	.....	75	2,330
Libera	7,500	.....	.....	72,403	.....	.....	.....	.....	.....	.....	.....	79,903
Madagascar	16,500	.....	.....	3,086	.....	.....	1,054	.....	.....	.....	100	20,740
Malawi	37,400	.....	.....	.....	.....	.....	1,744	.....	.....	.....	225	39,369
Mali	36,000	.....	.....	.....	.....	.....	2,927	.....	.....	.....	175	39,102
Mauritania	.....	.....	.....	699	.....	.....	1,477	.....	.....	.....	.....	2,176
Mauritius	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	50	50
Mozambique	39,200	.....	.....	14,511	5,000	.....	.....	.....	.....	.....	175	58,886
Nambia	8,000	.....	.....	.....	.....	.....	1,708	.....	.....	.....	200	9,908
Niger	3,500	.....	.....	.....	.....	.....	2,476	.....	.....	.....	.....	5,976
Nigeria	7,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7,000
Rwanda	7,500	.....	.....	44,808	.....	.....	.....	.....	.....	.....	300	52,608

TABLE 4C.—FY 1998 U.S. ECONOMIC & MILITARY ASSISTANCE—REQUEST—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Sao Tome	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Senegal	27,100	.....	.....	.....	.....	.....	3,153	.....	.....	.....	675	30,928
Seychelles	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Sierra Leone	.....	.....	.....	17,716	.....	.....	.....	.....	.....	.....	115	17,831
Somalia	4,000	.....	.....	4,936	.....	.....	.....	.....	.....	.....	.....	8,936
South Africa	70,000	.....	.....	.....	.....	.....	1,695	.....	.....	.....	800	72,495
Sudan	.....	.....	.....	14,861	.....	.....	.....	.....	.....	.....	.....	14,861
Swaziland	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Tanzania	20,000	.....	.....	.....	.....	.....	1,752	.....	.....	.....	225	21,977
Togo	.....	.....	.....	.....	.....	.....	1,735	.....	.....	.....	40	1,775
Uganda	49,550	.....	.....	5,284	.....	.....	1,359	.....	.....	.....	350	56,543
Zambia	17,600	.....	.....	.....	.....	.....	1,797	.....	.....	.....	150	19,547
Zimbabwe	15,300	.....	.....	.....	.....	.....	1,371	.....	.....	.....	350	17,021
Great Horn of Africa Initiative (GHAI)	15,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	15,000
Initiative for Southern Africa (ISA)	47,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	47,000
Africa Crisis Response Force	.....	.....	.....	.....	.....	.....	.....	.....	.....	5,000	.....	5,000
Africa Regional	84,904	15,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	99,904
Redsole	5,225	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5,225
Redso/W	17,036	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	17,036
Total	700,000	25,000	.....	262,147	19,900	.....	52,951	.....	.....	10,000	8,015	1,078,013
Asia & Near East:												
Afghanistan	.....	.....	.....	4,880	.....	.....	.....	.....	.....	.....	.....	4,880
Algeria	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Bahrain	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	175	175
Bangladesh	56,305	.....	.....	19,520	.....	.....	.....	.....	.....	.....	375	76,200
Cambodia	.....	37,000	.....	.....	.....	.....	.....	.....	.....	1,000	600	38,600
China	.....	.....	.....	.....	.....	.....	1,015	.....	.....	.....	.....	1,015
Egypt	.....	815,000	.....	.....	.....	.....	.....	.....	.....	1,300,000	1,050	2,116,050
Fiji & Tuvalu	.....	.....	.....	.....	.....	.....	448	.....	.....	.....	.....	448
India	55,700	.....	.....	80,122	.....	.....	.....	.....	.....	.....	475	136,297
Indonesia	46,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	800	47,300
Israel	.....	1,200,000	.....	.....	.....	.....	.....	.....	.....	1,800,000	.....	3,000,000

Jordan	2,500	25,000					1,392			45,000	1,700	75,592
Kiribati							645					645
Laos						2,500						2,500
Lebanon		12,000									600	12,600
Malaysia											700	700
Maldives											100	100
Micronesia							1,694					1,694
Mongolia		7,000					1,090				325	8,415
Morocco	15,672						2,287				900	18,859
Nepal	23,115						2,351				225	25,691
Oman											200	200
Pakistan						2,500						2,500
Papua New Guinea							2,027				200	2,227
Philippines	50,561						2,138				1,350	54,049
Soloman Islands							1,339				150	1,489
South Pacific		14,000										14,000
Sri Lanka	7,000						539				225	7,764
Thailand						3,000	833				1,600	5,433
Tonga							1,156				100	1,256
Tunisia											900	900
Vanuatu							885				100	985
West Bank/Gaza		75,000										75,000
Western Somoa							1,048				100	1,148
Yemen											75	75
Asia/Near East Regional	52,647	26,500				2,000						81,147
Total	310,000	2,211,500		104,522		10,000	20,887			3,146,000	13,100	5,816,009
Europe & NIS:												
Albania			30,000				1,383				600	31,983
Armenia			80,000				1,108					81,108
Azerbaijan			31,500									31,500
Baltics							2,131					2,131
Belarus			4,900								300	5,200
Bosnia			225,000	6,569							600	232,169
Bulgaria			25,000				1,817				900	27,717
Croatia			24,000								425	24,425
Cyprus		15,000										15,000
Czech Republic											1,300	1,300
Estonia											650	650

TABLE 4C.—FY 1998 U.S. ECONOMIC & MILITARY ASSISTANCE—REQUEST—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Georgia	.....	.....	41,900	.....	.....	.....	.....	.....	.....	.....	375	42,275
Greece	.....	.....	.....	.....	.....	.....	.....	.....	(122,500)	.....	25	25
Hungary	.....	.....	7,000	.....	.....	.....	.....	.....	.....	.....	1,500	8,500
Ireland	.....	19,600	.....	.....	.....	.....	.....	.....	.....	.....	.....	19,600
Kazakhstan	.....	.....	52,000	.....	.....	.....	1,708	.....	.....	.....	550	54,258
Kirghizstan	.....	.....	36,500	.....	.....	.....	1,145	.....	.....	.....	325	37,970
Latvia	.....	.....	3,000	.....	.....	.....	.....	.....	.....	.....	650	3,650
Lithuania	.....	.....	3,000	.....	.....	.....	.....	.....	.....	.....	650	3,650
Macedonia (FYR)	.....	.....	16,000	.....	.....	.....	.....	.....	.....	.....	400	16,400
Malta	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	100	100
Moldova	.....	.....	32,800	.....	.....	.....	1,264	.....	.....	.....	350	34,414
Poland	.....	.....	35,000	.....	.....	.....	2,784	.....	.....	.....	1,500	39,284
Portugal	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	800	800
Romania	.....	.....	33,000	.....	.....	.....	1,311	.....	.....	.....	900	35,211
Russia	.....	.....	241,500	.....	.....	.....	3,892	.....	.....	.....	850	246,242
Slovak Republic	.....	.....	8,000	.....	.....	.....	1,540	.....	.....	.....	600	10,140
Slovenia	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	600	600
Tajikistan	.....	.....	15,400	.....	.....	.....	.....	.....	.....	.....	.....	15,400
Turkey	4,000	50,000	.....	.....	.....	500	.....	.....	(175,000)	.....	1,500	56,000
Turkmenistan	.....	.....	6,000	.....	.....	.....	873	.....	.....	.....	300	7,173
Ukraine	.....	.....	225,500	.....	.....	.....	2,416	.....	.....	.....	1,200	229,116
Uzbekistan	.....	.....	32,500	.....	.....	.....	1,301	.....	.....	.....	350	34,151
Eastern Europe Regional	.....	.....	83,000	.....	.....	.....	.....	.....	(402,000)	.....	.....	83,000
Partnership for Peace	.....	.....	.....	.....	.....	.....	.....	.....	.....	70,000	.....	70,000
N.I.S. Regional	.....	.....	99,500	4,838	.....	.....	.....	.....	.....	.....	.....	104,338
Total	4,000	84,600	1,392,000	11,407	.....	500	24,673	.....	.....	70,000	18,300	1,605,480
Latin America & Caribbean:												
Argentina	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	600	600
The Bahamas	.....	.....	.....	.....	.....	1,000	.....	.....	.....	.....	100	1,100
Belize	.....	.....	.....	.....	.....	.....	958	.....	.....	.....	250	1,208
Bolivia	30,124	.....	.....	20,291	.....	45,000	2,290	.....	.....	.....	550	98,255
Brazil	11,150	.....	.....	.....	.....	1,000	.....	.....	.....	.....	225	12,375

Chile							808				450	1,258
Colombia						30,000					900	30,900
Costa Rica							610				200	810
Dominican Republic	9,370						2,501				500	12,371
Eastern Caribbean							2,360				450	2,810
Ecuador	9,000					350	2,755				500	12,605
El Salvador	33,235						1,348				500	35,083
Guatemala	23,338			12,122		2,000	2,476				225	40,161
Guyana	2,200						757				175	3,132
Haiti		70,000		14,314	10,000		1,352				300	95,966
Honduras	18,350			4,735			2,556				500	26,141
Jamaica	11,100					750	1,851				500	14,201
Mexico	9,250					8,000					1,000	18,250
Nicaragua	21,340			764			1,695				200	23,999
Panama	3,300						1,573					4,873
Paraguay	5,325						2,902				200	8,427
Peru	34,493			48,917		40,000					450	123,860
Suriname							1,113				100	1,213
Trinidad/Tobago											125	125
Uruguay											300	300
Venezuela						600					400	1,000
Caribbean Regional										3,000		3,000
PACAMS											550	550
ROCAP	14,025											14,025
LAC Regional	37,900	31,000				4,000						72,900
Peru/Ecuador Peace		5,000										5,000
AOJ/ICITAP		10,000										10,000
Total	273,500	116,000		101,143	10,000	132,700	29,903			3,000	10,250	676,496
Other:												
Administrative Costs							93,586			23,250	335	117,171
Loan subsidy									66,000			66,000
International Criminal Justice						16,000						16,000
Law Enforcement Training						7,000						7,000
Systems Support and Upgrades						17,000						17,000
ME Development Bank		52,500										52,500
International Organizations						7,000						7,000
Interregional Aviation Support						32,000						32,000
FMF: Demining										15,000		15,000

TABLE 4C.—FY 1998 U.S. ECONOMIC & MILITARY ASSISTANCE—REQUEST—P.L. 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
FMF: Enhanced Int'l Peacekeeping										7,000		7,000
International Fund for Agr. Dev. (IFAD)	2,500											2,500
Human Rights		8,000										8,000
Program Dev. and Support						7,800						7,800
Central P.L. 480:												
Reserve				320,233								320,233
Stock Adjustment				(1,800)								(1,800)
Transport Costs				(302,462)								(335,926)
Farmer to Farmer				11,348	100							11,448
PVO Administration				28,000								28,000
Total Central P.L. 480				357,781	100							357,881
Other Bilateral Assistance:												
Debt Restructuring								34,000				34,000
Multilateral Investment Fund								30,000				30,000
Trade & Development Agency								43,000				43,000
Inter-American Foundation								22,000				22,000
African Development Foundation								14,000				14,000
Migration & Refugee Assistance								650,000				650,000
Emergency Refugee & Migration Fund								50,000				50,000
Anti-Terrorism Assistance								19,000				19,000
Peacekeeping Operations								90,000				90,000
Non-Proliferation & Disarmament								15,000				15,000
P.L. 480 Title I Cargo Preference								10,250				10,250
OPIC loan subsidy & admin exp								92,000				92,000
OPIC Insurance activities								(158,000)				(158,000)
Total Other Bilateral								911,250				911,250
Other Military Assistance: Special Defense Acquisition Fund.								(106,000)				(106,000)

[1] DA bureau and country levels in this series of tables include attributions of central programs.
[2] See last page of this table for details.

TABLE 5A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL OBLIGATIONS—P.L. 480

[In thousands of dollars]

	DA [1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other [2]	FMF loans	FMF grants	IMET	Total
Bilateral Assistance:												
Africa	569,246	700	.....	399,451	25,000	.....	51,775	.....	.....	5,030	6,016	1,057,218
Asia & Near East	164,963	2,134,703	.....	207,580	7,500	10,492	19,902	.....	.....	3,201,000	10,611	5,756,751
Europe & NIS	1,785	42,870	935,092	98,344	.....	400	24,405	.....	.....	53,850	13,256	1,170,002
Latin America & Caribbean	183,468	120,449	.....	152,526	19,000	57,098	31,107	3,000	.....	2,000	8,717	577,365
Central PL 480	.....	.....	.....	(36,801)	(1,500)	.....	.....	.....	.....	.....	.....	(38,301)
Global Programs, Field Spt. & Res	492,749	7,903	8,080	.....	.....	.....	.....	.....	.....	.....	.....	508,732
Humanitarian Response	65,201	.....	15,144	.....	.....	.....	.....	.....	.....	.....	.....	80,345
Program & Policy Coordination	8,196	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	8,196
Other [2]	25,547	1,306	500	.....	.....	65,165	90,515	.....	59,400	30,463	400	273,296
Geographic & Central Programs	1,511,156	2,307,073	958,817	821,100	50,000	133,155	217,704	3,000	59,400	3,292,343	39,000	9,392,748
(Africa Fund)	.....	.....	(123,814)	.....	.....	.....	.....	.....	.....	.....	.....	(123,814)
(Eastern Europe)	.....	.....	(412,335)	.....	.....	.....	.....	.....	.....	.....	.....	(412,335)
(N.I.S.)	.....	.....	(546,482)	.....	.....	.....	.....	.....	.....	.....	.....	(546,482)
International Disaster Assistance	165,552	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	165,552
Housing Credit Subsidy	3,856	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,856
Housing Admin	6,824	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6,824
Micro & Small Ent Dev Credit Subsidy	1,098	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,098
Micro & Small Ent Dev Admin	459	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	459
Operating Expenses	487,268	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	487,268
Operating Expenses—I.G	30,548	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	30,548
Foreign Service Retirement	43,914	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	43,914
Adjustments	128,476	33,928	3,373	.....	.....	.....	.....	(3,000)	.....	.....	.....	166,150
Total USAID	2,379,151	2,341,001	962,190	821,100	50,000	.....	.....	.....	.....	.....	.....	6,553,441
Other Bilateral Assistance	.....	.....	.....	.....	.....	133,155	217,704	1,226,917	59,400	3,292,343	39,000	4,968,519
Total Bilateral	2,379,151	2,341,001	962,190	821,100	50,000	133,155	217,704	1,226,917	59,400	3,292,343	39,000	11,521,960
Multilateral Assistance:												
MDB's	.....	.....	.....	.....	.....	.....	.....	1,099,513	.....	.....	.....	1,099,513
IO & P	.....	.....	.....	.....	.....	.....	.....	285,000	.....	.....	.....	285,000
Total: Multilateral	.....	.....	.....	.....	.....	.....	.....	1,384,513	.....	.....	.....	1,384,513

TABLE 5A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL OBLIGATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA [1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other [2]	FMF loans	FMF grants	IMET	Total
Total Economic Assistance	2,379,151	2,341,001	962,190	821,100	50,000	133,155	217,704	2,611,430	.....	.....	.....	9,515,730
Total Military Assistance	.....	.....	.....	.....	.....	.....	.....	(123,000)	59,400	3,292,343	39,000	3,390,743
Total Econ. & Mil. Assist	2,379,151	2,341,001	962,190	821,100	50,000	133,155	217,704	2,488,430	59,400	3,292,343	39,000	12,906,473
Africa:												
Angola	18,413	.....	.....	44,077	.....	.....	.....	.....	.....	.....	.....	62,490
Benin	10,166	.....	.....	3,468	.....	.....	1,679	.....	.....	.....	281	15,594
Botswana	.....	.....	.....	.....	.....	.....	1,776	.....	.....	.....	454	2,230
Burkina	.....	.....	.....	12,429	.....	.....	965	.....	.....	.....	.....	13,394
Burundi	1,041	.....	.....	.....	.....	.....	.....	.....	.....	.....	71	1,112
Cameroon	.....	.....	.....	349	.....	.....	3,189	.....	.....	.....	83	3,621
Cape Verde	.....	.....	.....	6,208	.....	.....	1,008	.....	.....	.....	64	7,280
Central African Republic	150	.....	.....	.....	.....	.....	946	.....	.....	.....	110	1,206
Chad	.....	.....	.....	4,795	.....	.....	1,101	.....	.....	.....	.....	5,896
Comoros	.....	.....	.....	.....	.....	.....	54	.....	.....	.....	64	118
Congo	.....	.....	.....	.....	.....	.....	899	.....	.....	.....	162	1,061
Cote d'Ivoire	.....	.....	.....	.....	.....	.....	1,465	.....	.....	.....	151	1,616
Djibouti	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	150	150
Eritrea	8,387	.....	.....	4,275	.....	.....	888	.....	.....	.....	261	13,811
Ethiopia	34,114	.....	.....	50,253	25,000	.....	1,069	.....	.....	.....	327	110,763
Gabon	.....	.....	.....	.....	.....	.....	2,493	.....	.....	.....	.....	2,493
Gambia	335	.....	.....	2,995	.....	.....	1,200	.....	.....	.....	.....	4,530
Ghana	27,880	.....	.....	12,475	.....	.....	2,345	.....	.....	.....	257	42,957
Guinea	10,710	.....	.....	2,069	.....	.....	1,928	.....	.....	.....	35	14,742
Guinea-Bissau	4,392	.....	.....	1,733	.....	.....	1,110	.....	.....	.....	88	7,323
Kenya	11,533	.....	.....	2,260	.....	.....	2,329	.....	.....	.....	297	16,419
Lesotho	.....	.....	.....	.....	.....	.....	2,005	.....	.....	.....	72	2,077
Liberia	2,250	.....	.....	55,662	.....	.....	.....	.....	.....	.....	.....	57,912
Madagascar	14,897	.....	.....	3,670	.....	.....	880	.....	.....	.....	102	19,549
Malawi	29,359	.....	.....	.....	.....	.....	1,744	.....	.....	.....	154	31,257
Mali	27,112	.....	.....	.....	.....	.....	3,101	.....	.....	.....	155	30,368
Mauritania	.....	.....	.....	835	.....	.....	1,359	.....	.....	.....	.....	2,194
Mozambique	45,509	.....	.....	13,316	.....	.....	.....	.....	.....	.....	203	59,028

Namibia	5,000						1,691				190	6,881
Niger	1,340			690			2,334				11	4,375
Nigeria	1,843											1,843
Rwanda	5,742	700		114,085							243	120,770
Sao Tome				733			435				75	1,243
Senegal	15,523			1,213			3,040				637	20,413
Seychelles											31	31
Sierra Leone	450			26,614							134	27,198
Somalia	3,750			5,361								9,111
South Africa	116,204						505				466	117,175
Sudan				23,521								23,521
Swaziland							782				50	832
Tanzania	9,436						1,677				126	11,239
Togo							1,861					1,861
Uganda	30,954			6,365			1,267				189	38,775
Zambia	9,639						1,339				99	11,077
Zimbabwe	14,360						1,312				224	15,896
Africa Regional	62,090									5,030		67,120
Southern Africa Reg.1/SADCC	37,925											37,925
REDSO/E	4,900											4,900
REDSO/W	3,842											3,842
Total	569,246	700		399,451	25,000		51,775			5,030	6,016	1,057,218
Asia & Near East:												
Afghanistan				15,200								15,200
Algeria											75	75
Bahrain											108	108
Bangladesh	12,924			34,190	7,500						326	54,940
Cambodia	500	27,000								1,000	403	28,903
China							696					696
Egypt		816,842		603						1,300,000	1,009	2,118,454
Fiji							1,457					1,457
India	25,795			13,1380							357	157,532
Indonesia	32,535										577	33,112
Iraq (Northern)				7,212								7,212
Isreal		1,200,000								1,800,000		3,000,000
Jordan		7,199								100,000	1,202	108,401
Kiribati							507					507
Laos						2,000						2,000

TABLE 5A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL OBLIGATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA [1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other [2]	FMF loans	FMF grants	IMET	Total
Lebanon	.....	620	.....	.....	.....	.....	.....	.....	.....	.....	474	1,094
Malaysia	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	613	613
Maldives	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	80	80
Micronesia	.....	.....	.....	.....	.....	.....	1,631	.....	.....	.....	.....	1,631
Mongolia	.....	3,999	.....	.....	.....	.....	993	.....	.....	.....	70	5,062
Morocco	13,758	.....	.....	.....	.....	.....	2,063	.....	.....	.....	830	16,651
Nepal	10,888	.....	.....	2,542	.....	.....	2,237	.....	.....	.....	140	15,807
North Korea	.....	.....	.....	6,287	.....	.....	.....	.....	.....	.....	.....	6,287
Oman	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	119	119
Pakistan	.....	.....	.....	3,993	.....	2,500	.....	.....	.....	.....	.....	6,493
Papua New Guinea	.....	.....	.....	.....	.....	.....	1,491	.....	.....	.....	162	1,653
Philippines	35,484	.....	.....	4,846	.....	.....	1,712	.....	.....	.....	1,210	43,252
Singapore	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	20	20
Solomon Islands	.....	.....	.....	.....	.....	.....	1,105	.....	.....	.....	85	1,190
South Korea	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	9	9
South Pacific	.....	14,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	14,000
Sir Lanka	11,705	.....	.....	.....	.....	.....	595	.....	.....	.....	179	12,479
Thailand	1,500	.....	.....	.....	.....	1,500	1,919	.....	.....	.....	1,445	6,364
Tonga	.....	.....	.....	.....	.....	.....	923	.....	.....	.....	85	1,008
Tunisia	.....	.....	.....	.....	.....	.....	853	.....	.....	.....	816	1,669
Vanuatu	.....	.....	.....	.....	.....	.....	655	.....	.....	.....	88	743
West Bank/Gaza	295	64,011	.....	.....	.....	.....	.....	.....	.....	.....	.....	64,306
Western Somoa	.....	.....	.....	.....	.....	.....	1,065	.....	.....	.....	79	1,144
Yemen	.....	.....	.....	1,327	.....	.....	.....	.....	.....	.....	50	1,377
Asia/Near East Regional	16,933	1,032	.....	.....	.....	4,492	.....	.....	.....	.....	.....	22,457
East Asia Regional	2,240	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2,240
Total	164,557	2,134,703	.....	207,580	7,500	10,492	19,902	.....	.....	3,201,000	10,611	5,756,345
Europe & NIS:												
Albania	.....	.....	20,166	.....	.....	.....	1,245	.....	.....	.....	432	21,843
Armenia	.....	.....	69,718	.....	.....	.....	1,006	.....	.....	.....	.....	70,724
Azerbaijan	.....	.....	5,625	.....	.....	.....	.....	.....	.....	.....	.....	5,625
Baltics	.....	.....	.....	.....	.....	.....	2,183	.....	.....	750	.....	2,933

Belarus	.....	.....	3,634	.....	.....	.....	.....	.....	.....	.....	279	3,913
Bosnia-Hercegovina	.....	.....	146,981	98,344	.....	.....	.....	.....	.....	.....	259	245,584
Bulgaria	.....	.....	31,478	.....	.....	.....	1,155	.....	.....	.....	708	33,341
Croatia	.....	.....	10,630	.....	.....	.....	.....	.....	.....	.....	218	10,848
Czech Republic	.....	.....	5,423	.....	.....	.....	1,060	.....	.....	.....	795	7,278
Cyprus	.....	9,376	.....	.....	.....	.....	.....	.....	.....	.....	.....	9,376
Estonia	.....	.....	50	.....	.....	.....	.....	.....	.....	.....	386	436
Georgia	.....	.....	20,023	.....	.....	.....	.....	.....	.....	.....	302	20,325
Greece	.....	.....	.....	.....	.....	.....	.....	.....	(224,000)	.....	54	54
Hungary	.....	.....	18,345	.....	.....	.....	1,219	.....	.....	.....	1,034	20,598
Ireland	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Kazakhstan	.....	.....	28,181	.....	.....	.....	1,544	.....	.....	.....	388	30,113
Kirghizstan	.....	.....	15,961	.....	.....	.....	1,073	.....	.....	.....	231	17,265
Latvia	.....	.....	3,907	.....	.....	.....	.....	.....	.....	.....	388	4,295
Lithuania	.....	.....	7,989	.....	.....	.....	.....	.....	.....	.....	498	8,487
Macedonia	.....	.....	9,655	.....	.....	.....	.....	.....	.....	.....	249	9,904
Malta	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	30	30
Moldova	.....	.....	24,295	.....	.....	.....	974	.....	.....	.....	273	25,542
Poland	.....	.....	47,287	.....	.....	.....	2,721	.....	.....	.....	1,021	51,029
Portugal	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	769	769
Romania	485	.....	27,276	.....	.....	.....	1,271	.....	.....	.....	758	29,790
Russia	.....	.....	174,654	.....	.....	.....	3,406	.....	.....	.....	760	178,820
Slovak Republic	.....	.....	16,459	.....	.....	.....	1,374	.....	.....	.....	473	18,306
Slovenia	.....	.....	2,926	.....	.....	.....	.....	.....	.....	.....	253	3,179
Spain	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	49	49
Tajikistan	.....	.....	3,368	.....	.....	.....	.....	.....	.....	.....	.....	3,368
Turkey	.....	33,494	.....	.....	.....	400	.....	.....	(320,000)	.....	1,095	34,989
Turkmenistan	.....	.....	3,009	.....	.....	.....	943	.....	.....	.....	213	4,165
Ukraine	.....	.....	98,635	.....	.....	.....	2,136	.....	.....	.....	1,019	101,790
Uzbekistan	.....	.....	9,779	.....	.....	.....	1,095	.....	.....	.....	293	11,167
Eastern Europe Regional	1,300	.....	45,124	.....	.....	.....	.....	.....	.....	.....	.....	46,424
Western Europe	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	29	29
N.I.S. Regional	.....	.....	84,514	.....	.....	.....	.....	.....	.....	.....	.....	84,514
Partnership for Peace	.....	.....	.....	.....	.....	.....	.....	.....	.....	53,100	.....	53,100
Total	1,785	42,870	935,092	98,344	.....	400	24,405	.....	.....	53,850	13,256	1,170,002
Latin America & Caribbean:												
Argentina	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	588	588
The Bahamas	.....	.....	.....	.....	.....	700	.....	.....	.....	.....	116	816

TABLE 5A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL OBLIGATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA [1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other [2]	FMF loans	FMF grants	IMET	Total
Belize	.....	.....	.....	.....	.....	.....	1,022	.....	.....	.....	217	1,239
Bolivia	15,070	15,400	.....	27,277	.....	15,000	2,095	.....	.....	.....	547	75,389
Brazil	4,671	.....	.....	.....	.....	290	.....	.....	.....	.....	200	5,161
Chile	.....	.....	.....	.....	.....	.....	1,654	.....	.....	.....	301	1,955
Colombia	118	.....	.....	.....	.....	16,000	.....	.....	.....	.....	95	16,213
Cost Rica	.....	.....	.....	270	.....	.....	1,671	.....	.....	.....	196	2,137
Dominican Republic	5,508	200	.....	4,732	.....	.....	2,706	.....	.....	.....	507	13,653
Eastern Caribbean	.....	.....	.....	.....	.....	.....	2,516	.....	.....	2,000	507	5,023
Ecuador	9,002	.....	.....	727	.....	500	2,409	.....	.....	.....	547	13,185
El Salvador	19,972	28,015	.....	4,456	.....	.....	993	3,000	.....	.....	535	56,971
Guatemala	7,027	6,547	.....	16,781	.....	2,000	2,818	.....	.....	.....	.....	35,173
Guyana	2,198	.....	.....	316	.....	.....	471	.....	.....	.....	220	3,205
Haiti	14,116	45,263	.....	29,275	10,000	.....	458	.....	.....	.....	169	99,281
Honduras	10,770	.....	.....	6,848	5,000	.....	2,628	.....	.....	.....	500	25,746
Jamaica	7,811	.....	.....	2,200	.....	700	1,886	.....	.....	.....	469	13,066
Mexico	20,792	.....	.....	.....	.....	2,200	.....	.....	.....	.....	992	23,984
Nicaragua	12,519	6,689	.....	2,474	4,000	.....	1,568	.....	.....	.....	.....	27,250
Panama	3,210	2,000	.....	588	.....	.....	1,184	.....	.....	.....	.....	6,982
Paraguay	1,050	725	.....	.....	.....	.....	3,096	.....	.....	.....	155	5,026
Peru	9,860	3,000	.....	56,582	.....	15,500	.....	.....	.....	.....	380	85,322
Suriname	.....	.....	.....	.....	.....	.....	732	.....	.....	.....	85	817
Uruguay	.....	.....	.....	.....	.....	.....	1,200	.....	.....	.....	380	1,580
Venezuela	.....	.....	.....	.....	.....	500	.....	.....	.....	.....	428	928
Caribbean Regional	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	83	83
PACAMS	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500	500
ROCAP	10,914	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	10,914
LAC Regional	28,860	12,610	.....	.....	.....	3,708	.....	.....	.....	.....	.....	45,178
Total	183,468	120,449	.....	152,526	19,000	57,098	31,107	3,000	.....	2,000	8,717	577,365
Other:												
Administrative Costs	.....	.....	.....	.....	.....	.....	90,515	.....	.....	23,250	400	114,165
Loan subsidy	.....	.....	.....	.....	.....	.....	.....	.....	59,400	.....	.....	59,400
International Criminal Justice	.....	.....	.....	.....	.....	18,200	.....	.....	.....	.....	.....	18,200

Law Enforcement Training						7,000						7,000
International Organizations						7,710						7,710
Interregional Aviation Support						25,755						25,755
Haiti Peacekeeping												
FMF: Demining										7,213		7,213
Other	25, 547	1,306				6,500						33,853
Central P.L. 480:												
Stock Adjustment				(17,998)								(17,998)
PVO Fallout				(13,500)								(13,500)
Transport Costs				(328,078)								(328,078)
Carryin				(18,576)	(11,700)							(30,276)
PVO Administration				25,000								25,000
Transfer from Title I				(11,600)								(11,600)
Transfer to Title II					10,100							10,100
Transfer from Title III				(10,127)								(10,127)
Farmer to Farmer				10,000	100							10,100
Total Central P.L. 480				(36,801)	(1,500)							(38,301)
Other Bilateral Assistance:												
Debt Restructuring								10,000				10,000
Trade & Development Agency								48,994				48,994
Inter-American Foundation								19,986				19,986
African Development Foundation								11,496				11,496
Migration & Refugee Assistance								670,983				670,983
Emergency Refugee & Migration Fund								50,000				50,000
Anti-Terrorism Assistance								15,983				15,983
Peacekeeping Operations								96,200				96,200
Non-Proliferation & Disarmament								35,000				35,000
P.L. 480 Title I								262,815				262,815
OPIC loan subsidy & admin exp								98,000				98,000
OPIC Insurance activities								(92,540)				(92,540)
Total Other Bilateral								1,226,917				1,226,917
Other Military Assistance:												
Special Defense Acquisition Fund								(173,000)				(173,000)
Counter-terrorism Asst. to Israel								50,000				50,000
Total Other Military								(123,000)				(123,000)

TABLE 5A.—FY 1996 U.S. ECONOMIC & MILITARY ASSISTANCE—ACTUAL OBLIGATIONS—P.L. 480—Continued

[In thousands of dollars]

	DA [1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other [2]	FMF loans	FMF grants	IMET	Total
Carry in from prior FY:												
Development Assistance Fund	(110,019)											(110,019)
Development Fund for Africa	(140,532)											(140,532)
Sahel Development Program	(1,164)											(1,164)
International Disaster Assistance	(23,369)											(23,369)
Africa Disaster Assistance	(456)											(456)
Economic Support Fund		(207,792)										(207,792)
SAI			(63,189)									(126,378)
NIS			(231,813)									(463,626)
Operating Expenses	(27,195)											(27,195)
Operating Expenses—IG	(7,762)											(7,762)
Demobilization & Transition Fund									(3,000)			(3,000)
Centr. Amer. Reconciliation									(534)			(534)
Carry over into next fiscal year:												
Development Assistance Fund	404,125											404,125
Development Fund for Africa	70,360											70,360
Sahel Development Program	773											773
International Disaster Assistance	45,111											45,111
MSED Program	443											443
Africa Disaster Assistance	1,970											1,970
Economic Support Fund		286,893										286,893
SAI			119,517									239,034
NIS			262,003									524,006
Operating Expenses	39,935											39,935
Operating Expenses)—IG	7,743											7,743
Demobilization & Transition Fund												
Centr. Amer. Reconciliation									995			995
Reimbursements	(10,740)	(801)										(11,541)
Recoveries:												
Development Assistance Fund	(33,685)											(33,685)
Development Fund for Africa	(53,844)											(53,844)
Sahel Development Program	(144)											(144)
International Disaster Assistance	(6,201)											(6,201)
Africa Disaster Assistance	(1,514)											(1,514)

Economic Support Fund	.....	(44,812)	.....	.....	.....	.....	.....	.....	.....	.....	.....	(44,812)
SAI	.....	.....	(8,494)	.....	.....	.....	.....	.....	.....	.....	.....	(16,988)
NIS	.....	.....	(74,651)	.....	.....	.....	.....	.....	.....	.....	.....	(149,302)
Operating Expenses	(25,939)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	(25,939)
Operating Expenses)—IG	(1,844)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	(1,844)
Centr. Amer. Reconciliation	.....	.....	.....	.....	.....	.....	.....	.....	(461)	.....	.....	(461)
Returned to Treasury	2,424	440	.....	.....	.....	.....	.....	.....	.....	.....	.....	2,864
Total Adjustments	128,476	33,928	3,373	.....	.....	.....	.....	.....	(3,000)	.....	.....	166,150

[1] DA bureau and country levels in this series of tables exclude attributions of central programs.
[2] See last page of this table for details.

TABLE 5B.—FY 1997 U.S. ECONOMIC & MILITARY ASSISTANCE—ESTIMATED OBLIGATIONS—PL 480

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Bilateral Assistance Summary:												
Africa	729,358	17,222	.....	204,357	28,400	.....	53,443	.....	.....	7,750	7,325	1,047,855
Asia & Near East	319,228	2,360,047	3,000	130,673	.....	10,000	20,745	.....	.....	3,131,000	11,775	5,986,468
Europe & NIS	4,592	87,506	1,455,002	27,007	.....	500	24,980	.....	.....	60,000	14,750	1,674,337
Latin America & Caribbean	316,518	118,120	.....	104,363	10,000	116,200	30,942	.....	.....	2,000	9,350	707,493
Central PL 480	.....	.....	.....	370,600	(8,900)	.....	.....	.....	.....	.....	.....	361,700
Global Programs, Field Spt. & Res	580,663	4,394	2,789	.....	.....	.....	.....	.....	.....	.....	.....	587,846
Humanitarian Response	74,952	.....	3,781	.....	.....	.....	.....	.....	.....	.....	.....	78,733
Program & Policy Coordination	8,654	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	8,654
Other[2]	73,793	62,204	16,948	.....	.....	86,300	89,890	.....	60,000	23,250	275	412,660
Geographic & Central Programs	2,107,758	2,649,493	1,481,520	837,000	29,500	213,000	220,000	.....	60,000	3,224,000	43,475	10,865,746
(Eastern Europe)	.....	.....	(594,517)	.....	.....	.....	.....	.....	.....	.....	.....	(594,517)
(N.I.S.)	.....	.....	(887,003)	.....	.....	.....	.....	.....	.....	.....	.....	(887,003)
International Disaster Assistance	235,111	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	235,111
Africa Disaster Assistance	1,970	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,970
Urban & Environmental Credit Subs	3,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,500
Urban & Environmental Admin	6,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6,000
Micro & Small Ent Dev Credit Subs	1,500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,500
Micro & Small Ent Dev Admin	500	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500
Operating Expenses	528,185	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	528,185
Operating Expenses—I.G	37,743	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	37,743
Foreign Service Retirement	43,826	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	43,826
Unobligated Balances from prior year	(570,017)	(286,893)	(381,520)	.....	.....	.....	.....	.....	.....	.....	.....	(1,238,430)
Total USAID (Excludes Transfers)	2,396,076	2,362,600	1,100,000	837,000	29,500	.....	.....	.....	.....	.....	.....	6,725,176
Other Bilateral Assistance	.....	.....	.....	.....	.....	213,000	220,000	1,026,774	60,000	3,224,000	43,475	4,787,249
Total: Bilateral	2,396,076	2,362,600	1,100,000	837,000	29,500	213,000	220,000	1,026,774	60,000	3,224,000	43,475	11,512,425
Multilateral Assistance:												
MDB's	.....	.....	.....	.....	.....	.....	.....	958,405	.....	.....	.....	958,405
IO & P	.....	.....	.....	.....	.....	.....	.....	333,450	.....	.....	.....	333,450

Total Multilateral								1,291,855				1,291,855
Total Economic Assistance	2,396,076	2,362,600	1,100,000	837,000	29,500	213,000	220,000	2,318,629				9,476,805
Total Military Assistance								(118,000)	60,000	3,224,000	43,475	3,209,475
Total Econ. & Mil. Assist	2,396,076	2,362,600	1,100,000	837,000	29,500	213,000	220,000	2,200,629	60,000	3,224,000	43,475	12,686,280
Africa:												
Angola	11,500	5,000		18,521							125	35,146
Benin	13,900			1,962			1,662				350	17,874
Botswana							1,101				450	1,551
Burkina Faso				13,225			1,464					14,689
Burundi	1,776											1,776
Cameroon							3,085				100	3,185
Cape Verde				2,626			923				100	3,649
Central African Republic							10				150	160
Chad							984				25	1,009
Comoros											75	75
Congo							1,103				175	1,278
Cote d'Ivoire							1,703				150	1,853
Djibouti											100	100
Eritrea	9,813			478	15,000		1,176				375	26,842
Ethiopia	38,263			25,524	9,400		1,250				400	74,837
Gabon							2,614					2,614
Gambia	265			2,024			1,252					3,541
Ghana	41,319			12,047			2,529				260	56,155
Guinea	13,814			441			2,050				150	16,455
Guinea-Bissau	4,100						1,079				125	5,304
Kenya	20,237						3,119				300	23,656
Lesotho				432			2,237				75	2,744
Liberia	8,244	2,900		8,710								19,854
Madagascar	18,290			3,454			1,047				100	22,891
Malawi	36,088						1,841				225	38,154
Mali	31,979			173			3,002				150	35,304
Mauritania				1,611			1,428					3,039
Mauritius											25	25
Mozambique	31,000			17,983	4,000						175	53,158
Namibia	8,000						1,706				200	9,906
Niger	3,300						2,476					5,776
Nigeria	7,000											7,000

TABLE 5B.—FY 1997 U.S. ECONOMIC & MILITARY ASSISTANCE—ESTIMATED OBLIGATIONS—PL 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Rwanda	14,552	.....	.....	66,721	.....	.....	.....	.....	.....	.....	300	81,573
Sao Tome	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Senegal	23,306	.....	.....	.....	.....	.....	3,138	.....	.....	.....	650	27,094
Seychelles	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Sierra Leone	.....	.....	.....	6,174	.....	.....	.....	.....	.....	.....	115	6,289
Somalia	4,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4,000
South Africa	89,725	.....	.....	.....	.....	.....	1,257	.....	.....	.....	700	91,682
Sudan	.....	.....	.....	9,689	.....	.....	.....	.....	.....	.....	.....	9,689
Swaziland	.....	.....	.....	.....	.....	.....	177	.....	.....	.....	75	252
Tanzania	18,700	.....	.....	.....	.....	.....	1,719	.....	.....	.....	225	20,644
Togo	.....	.....	.....	.....	.....	.....	1,867	.....	.....	.....	25	1,892
Uganda	41,374	.....	.....	12,562	.....	.....	1,353	.....	.....	.....	300	55,589
Zambia	17,156	.....	.....	.....	.....	.....	1,724	.....	.....	.....	150	19,030
Zimbabwe	18,116	.....	.....	.....	.....	.....	1,368	.....	.....	.....	275	19,759
Greater Horn of Africa Initiative (GHAI)	17,140	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Initiative for Southern Africa (ISA)	38,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	38,000
Africa Regional	75,675	9,322	.....	.....	.....	.....	.....	.....	.....	4,750	.....	89,747
REDSO/E	6,800	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6,800
REDSO/W	19,170	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	19,170
Africa Crisis Response Force	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,000	.....	3,000
Special Concerns	46,757	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	46,757
Total	729,358	17,222	.....	204,357	28,400	.....	53,443	.....	.....	7,750	7,325	1,030,715
Asia & Near East:												
Afghanistan	.....	.....	.....	13,600	.....	.....	.....	.....	.....	.....	.....	13,600
Algeria	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	75	75
Bahrain	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	125	125
Bangladesh	71,937	.....	.....	20,609	.....	.....	.....	.....	.....	.....	300	92,846
Burma	.....	1,995	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,995
Cambodia	.....	35,000	.....	.....	.....	.....	.....	.....	.....	1,000	500	36,500
China	.....	.....	.....	.....	.....	.....	891	.....	.....	.....	.....	891
Egypt	.....	967,274	.....	.....	.....	.....	.....	.....	.....	1,300,000	1,000	2,268,274
Fiji	.....	.....	.....	.....	.....	.....	804	.....	.....	.....	.....	804

India	55,180	.....	.....	89,868	.....	.....	.....	.....	.....	.....	400	145,448
Indonesia	50,072	.....	.....	.....	.....	.....	.....	.....	.....	.....	600	50,672
Iraq (Northern)	.....	1,500	.....	6,596	.....	.....	.....	.....	.....	.....	.....	8,096
Israel	.....	1,200,000	.....	.....	.....	.....	.....	.....	.....	1,800,000	.....	3,000,000
Jordan	6,100	10,000	.....	.....	.....	.....	1,038	.....	.....	30,000	1,600	48,738
Kiribati	.....	.....	.....	.....	.....	.....	589	.....	.....	.....	.....	589
Laos	.....	2,000	.....	.....	.....	2,500	.....	.....	.....	.....	.....	4,500
Lebanon	.....	13,794	.....	.....	.....	.....	.....	.....	.....	.....	550	14,344
Malaysia	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	600	600
Maldives	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	100	100
Micronesia	.....	.....	.....	.....	.....	.....	1,587	.....	.....	.....	.....	1,587
Mongolia	.....	7,500	3,000	.....	.....	.....	1,056	.....	.....	.....	325	11,881
Morocco	18,200	.....	.....	.....	.....	.....	2,244	.....	.....	.....	800	21,244
Nepal	26,560	.....	.....	.....	.....	.....	2,368	.....	.....	.....	200	29,128
Oman	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	150	150
Pakistan	.....	.....	.....	.....	.....	2,500	.....	.....	.....	.....	.....	2,500
Papua New Guinea	.....	.....	.....	.....	.....	.....	1,937	.....	.....	.....	200	2,137
Philippines	56,840	.....	.....	.....	.....	.....	2,184	.....	.....	.....	1,250	60,274
Solomon Islands	.....	.....	.....	.....	.....	.....	1,245	.....	.....	.....	150	1,395
South Pacific	.....	14,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	14,000
Sri Lanka	3,000	.....	.....	.....	.....	.....	420	.....	.....	.....	200	3,620
Thailand	.....	.....	.....	.....	.....	3,000	1,443	.....	.....	.....	1,500	5,943
Tonga	.....	.....	.....	.....	.....	.....	1,087	.....	.....	.....	100	1,187
Tunisia	.....	.....	.....	.....	.....	.....	5	.....	.....	.....	800	805
Vanuatu	.....	.....	.....	.....	.....	.....	812	.....	.....	.....	100	912
West Bank/Gaza	.....	86,988	.....	.....	.....	.....	.....	.....	.....	.....	.....	86,988
Western Somoa	.....	.....	.....	.....	.....	.....	1,036	.....	.....	.....	100	1,136
Yemen	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	50	50
RSM/East Asia Regional	1,310	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,310
Asia/Near East Regional	30,029	19,996	.....	.....	.....	2,000	.....	.....	.....	.....	.....	52,025
Total	319,228	2,360,047	3,000	130,673	.....	10,000	20,745	.....	.....	3,131,000	11,775	5,986,468
Europe & NIS:												
Albania	.....	.....	27,468	.....	.....	.....	1,378	.....	.....	.....	600	29,446
Armenia	.....	.....	111,201	.....	.....	.....	1,104	.....	.....	.....	.....	112,305
Azerbaijan	.....	.....	21,510	.....	.....	.....	.....	.....	.....	.....	.....	21,510
Baltics	.....	.....	.....	.....	.....	.....	2,115	.....	.....	.....	.....	2,115
Belarus	.....	.....	6,186	.....	.....	.....	.....	.....	.....	.....	300	6,486
Bosnia	.....	1,300	266,740	22,425	.....	.....	.....	.....	.....	.....	500	290,965

TABLE 5B.—FY 1997 U.S. ECONOMIC & MILITARY ASSISTANCE—ESTIMATED OBLIGATIONS—PL 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Bulgaria	.....	.....	33,000	.....	.....	.....	1,652	.....	.....	.....	800	35,452
Croatia	.....	.....	15,500	.....	.....	.....	.....	.....	.....	.....	350	15,850
Cyprus	.....	25,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	25,000
Czech Republic	.....	.....	.....	.....	.....	.....	481	.....	.....	.....	800	1,281
Estonia	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	500	500
Georgia	.....	.....	31,510	.....	.....	.....	.....	.....	.....	.....	275	31,785
Greece	.....	.....	.....	.....	.....	.....	.....	.....	(122,500)	.....	25	25
Hungary	.....	.....	15,194	.....	.....	.....	428	.....	.....	.....	1,000	16,622
Ireland	.....	39,200	.....	.....	.....	.....	.....	.....	.....	.....	.....	39,200
Kazakhstan	.....	.....	42,079	.....	.....	.....	1,651	.....	.....	.....	400	44,130
Kirghizstan	.....	.....	21,625	.....	.....	.....	1,116	.....	.....	.....	250	22,991
Latvia	.....	.....	3,000	.....	.....	.....	.....	.....	.....	.....	500	3,500
Lithuania	.....	.....	7,000	.....	.....	.....	.....	.....	.....	.....	500	7,500
Macedonia (FYR)	.....	.....	20,043	.....	.....	.....	.....	.....	.....	.....	300	20,343
Malta	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	100	100
Moldova	.....	.....	32,321	.....	.....	.....	1,167	.....	.....	.....	250	33,738
Poland	.....	.....	43,210	.....	.....	.....	2,608	.....	.....	.....	1,000	46,818
Portugal	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	800	800
Romania	.....	.....	35,120	.....	.....	.....	1,286	.....	.....	.....	800	37,206
Russia	.....	.....	188,042	.....	.....	.....	3,898	.....	.....	.....	800	192,740
Slovak Republic	.....	.....	15,759	.....	.....	.....	1,535	.....	.....	.....	600	17,894
Slovenia	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	400	400
Tajikistan	.....	.....	5,225	4,582	.....	.....	.....	.....	.....	.....	.....	9,807
Turkey	4,400	22,006	.....	.....	.....	500	.....	.....	(175,000)	.....	1,400	28,306
Turkmenistan	.....	.....	6,566	.....	.....	.....	930	.....	.....	.....	250	7,746
Ukraine	.....	.....	281,275	.....	.....	.....	2,411	.....	.....	.....	1,000	284,686
Uzbekistan	.....	.....	23,737	.....	.....	.....	1,220	.....	.....	.....	250	25,207
Eastern Europe Regional	192	.....	106,913	.....	.....	.....	.....	.....	(242,500)	.....	.....	107,105
Partnership for Peace	.....	.....	.....	.....	.....	.....	.....	.....	.....	60,000	.....	60,000
N.I.S. Regional	.....	.....	94,778	.....	.....	.....	.....	.....	.....	.....	.....	94,778
Total	4,592	87,506	1,455,002	27,007	.....	500	24,980	.....	.....	60,000	14,750	1,674,337

Latin America & Caribbean:												
Argentina											600	600
The Bahamas						1,000					100	1,100
Belize							998				250	1,248
Bolivia	34,521			21,390		45,000	2,259				500	103,670
Brazil	12,880					500					225	13,605
Chile							1,284				400	1,684
Colombia						30,000					600	30,600
Costa Rica							977				150	1,127
Dominican Republic	12,683						2,498				500	15,681
Ecuador	13,162					350	2,676				425	16,613
El Salvador	31,313						1,275				450	33,038
Guatemala	25,079			11,902		2,000	2,460				225	41,666
Guyana	2,763						734				175	3,672
Haiti	10,949	87,147		14,129	10,000		944				300	123,469
Honduras	23,776			4,673			2,540				425	31,414
Jamaica	12,588					750	1,873				500	15,711
Mexico	15,972					8,000					1,000	24,972
Nicaragua	22,475			1,215			1,633				150	25,473
Panama	2,740						1,519					4,259
Paraguay	5,035						2,997				200	8,232
Peru	33,443			51,054		23,000					450	107,947
Suriname							917				100	1,017
Trinidad/Tobago											100	100
Uruguay							821				275	1,096
Venezuela						600					350	950
Caribbean Regional							2,535			2,000	400	4,935
PACAMS											500	500
ROCAP	10,660											10,660
LAC Regional	46,479	23,473				5,000						74,952
AOJ/CITAP		7,500										7,500
Andean Narcotics Initiative												
Total	316,518	118,120		104,363	10,000	116,200	30,942			2,000	9,350	707,493
Other:												
Administrative Costs							89,890			23,250	275	113,415
Loan subsidy									60,000			60,000
International Criminal Justice						20,000						20,000
Law Enforcement Training						9,000						9,000

TABLE 5B.—FY 1997 U.S. ECONOMIC & MILITARY ASSISTANCE—ESTIMATED OBLIGATIONS—PL 480—Continued

[In thousands of dollars]

	DA[1]	ESF	SAI/NIS	Title II	Title III	NARCS	Peace Corps	Other[2]	FMF loans	FMF grants	IMET	Total
Systems Support and Upgrades						6,000						6,000
International Organizations						12,000						12,000
Interregional Aviation Support						31,500						31,500
Special Concerns[3]	73,793	62,204	16,948									152,945
International Fund for Agr. Dev. (IFAD)												
Program Dev. and Support						7,800						7,800
Central P.L. 480:												
Reserve				342,427								342,427
Stock Adjustment				(18,827)								(18,827)
Farmer to Farmer				10,798	100							10,898
PVO Administration				28,000								28,000
Transport Costs				(309,019)								(309,019)
Transfer to Title III				9,000								9,000
Transfer from Title II					(9,000)							(9,000)
Transfer from Title I				(798)								(798)
Total Central P.L. 480				370,600	(8,900)							361,700
Other Bilateral Assistance:												
Debt Restructuring								27,000				27,000
Trade & Development Agency								45,000				45,000
Inter-American Foundation								20,000				20,000
African Development Foundation								11,500				11,500
Migration & Refugee Assistance								650,000				650,000
Emergency Refugee & Migration Fund								50,000				50,000
Anti-Terrorism Assistance								18,000				18,000
Peacekeeping Operations								65,000				65,000
Non-Proliferation & Disarmament								15,000				15,000
P.L. 480 Title I								151,274				151,274
OPIC loan subsidy & admin exp								104,500				104,500
OPIC Insurance activities								(130,500)				(130,500)
Total Other Bilateral								1,026,774				1,026,774

Other Military Assistance:												
Relocation of Facilities in Israel	.....	.....	.....	.....	.....	.....	.....	(2,000)	.....	.....	.....	(2,000)
Counter-terrorism Assistance to Israel	.....	.....	.....	.....	.....	.....	.....	50,000	.....	.....	.....	50,000
Special Defense Acquisition Fund	.....	.....	.....	.....	.....	.....	.....	(166,000)	.....	.....	.....	(166,000)
Total Other Military	.....	.....	.....	.....	.....	.....	.....	(118,000)	.....	.....	.....	(118,000)
Unobligated balances from prior year by account:												
Development Assistance Fund	404,125	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Development Fund for Africa	70,360	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Sahel Development Program	773	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
International Disaster Assistance	45,111	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
African Disaster Assistance	1,970	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Economic Support Fund	.....	286,893	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
SAI	.....	.....	119,517	.....	.....	.....	.....	.....	.....	.....	.....	.....
NIS	.....	.....	262,003	.....	.....	.....	.....	.....	.....	.....	.....	.....
Operating Expenses	39,935	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Operating Expenses–I.G.	7,743	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total	570,017	286,893	381,520	.....	.....	.....	.....	.....	.....	.....	.....	1,238,430

[1] DA bureau and country levels in this series of tables include attributions of central programs.
[2] See last page of this table for details.
[3] Special Concerns includes funds yet to be allocated for special program areas such as Vitamin A, orphans, victims of war, etc.

TABLE 6.—FY 1998 BUDGET REQUEST
INTERNATIONAL ORGANIZATIONS AND PROGRAMS
[In thousands of dollars]

	Fiscal year—		
	1996 actual	1997 estimate	1998 request
Building democracy	2,500	4,900	4,900
UN Voluntary Fund for Tech Coop in Field of Human Rights	0	900	900
UN Vol Fund for Victims of Torture	1,500	1,500	1,500
OAS Fund for Strengthening Democracy	1,000	2,500	2,500
Promoting sustainable development	224,500	267,550	294,100
Broad-Based Economic Growth	156,450	185,950	206,100
UN Development Program (UNDP)	52,000	76,350	100,000
UN Development Fund for Women (UNIFEM)	1,000	1,000	1,000
UN Children's Fund (UNICEF)	100,000	[1] 100,000	100,000
World Food Program	3,000	3,000	2,000
Afghanistan Emergency Trust Fund	250	500	500
International Fund for Agricultural Development (IFAD)	0	[2] 5,000	2,500
UN Fellowship Program	100	0	0
ICAO Aviation Security Fund	100	100	100
Stabilization of World Population Growth	22,750	25,000	30,000
UN Population Fund (UNFPA)	22,750	25,000	30,000
Protection of Global Environment	37,300	50,100	51,500
UNEP Environment Program (UNEP Fund/UNEP-related)	8,000	11,000	11,000
Montreal Protocol Multilateral Fund	22,000	27,500	28,000
Habitat	250	0	0
Int'l Conservation Programs (CITES/ITTO/IUCN/Ramsar	2,050	4,050	3,750
Climate Stabilization Fund (IPCC/UNFCCC)	2,500	3,225	5,000
Int'l Contribtuns for Scntfc, Educal & Cultural Actvts	1,200	2,325	2,250
World Meteorological Org/Voluntary Cooperation Program	1,300	2,000	1,500
Support for Democratic Participation	8,000	6,500	6,500
OAS Development Assistance Program	8,000	6,500	6,500
Promoting Peace	58,000	61,000	66,000
Int'l Atomic Energy Agency (IAEA) Voluntary Programs	36,000	[1] 36,000	36,000
Korean Energy Development Organization (KEDO)	22,000	[1] 25,000	30,000
Grand Total	285,000	[3] 333,450	365,000

[1] For FY 1997, UNICEF, IAEA and KEDO have been transferred into other accounts.
[2] Of which $2.5 million has been transferred into IO&P.
[3] IO&P appropriation totals $169.95 million.

TABLE 7A.—FY 1998 CONGRESSIONAL PRESENTATION—P.L. 480 TITLE III

[By fiscal year]

Region/Country	1996 actual program levels		1997 current program levels		1998 proposed program levels	
	($MIL)	MTN(000)	($MIL)	MTN(000)	($MIL)	MTN(000)
Asia—total	7.5	30.0	.....	.....	.....	.....
Bangladesh	7.5	30.0	.....	.....	.....	.....
Latin America—total	19.0	59.7	10.0	20.0	10.0	20.0
Haiti	10.0	21.5	10.0	20.0	10.0	20.0
Honduras	5.0	22.2	.....	.....	.....	.....
Nicaragua	4.0	16.0	.....	.....	.....	.....
Africa—total	25.0	56.8	28.4	121.0	19.9	86.0
Eritrea	.....	.....	15.0	62.0	5.0	20.0
Ethiopia	25.0	56.8	9.4	39.0	9.9	40.0
Mozambique	.....	.....	4.0	20.0	5.0	26.0
Program total	51.5	146.5	38.4	141.0	29.9	106.0
Farmer-To-Farmer	0.1	.....	0.1	.....	0.1	.....
Carryin	(11.7)	.....	.....	.....	.....	.....
Transfer to Title II	10.1	.....	.....	.....	.....	.....
Transfer from Title II	.....	.....	9.0	.....	.....	.....
Appropriation	50.0	.....	29.5	.....	30.0	.....
Includes estimated freight costs of	16.5	.....	9.7	.....	9.9	.....

TABLE 7B–1.—FY 1998 CONGRESSIONAL PRESENTATION—P.L. 480 TITLE II

[In thousands of dollars]

Region/Country	FY 1996 final program levels					FY 1997 current program levels [1]					FY 1998 congressional presentation				
	Total	Transport	Commodity			Total	Transport	Commodity			Total	Transport	Commodity		
			PVO/CDO	WFP [3]	IEFR [4]			PVO/CDO	WFP [3]	IEFR [4]			PVO/CDO	WFP [3]	IEFR [4]
Asia/Near East	207,580	57,035	103,366	38,315	8,864	130,673	41,952	76,638	8,417	3,666	104,522	31,809	69,333	3,380	.....
Afghanistan [6]	15,200	7,200	.....	8,000	.....	13,600	7,000	.....	6,600	.....	4,880	1,500	.....	3,380	.....
Bangladesh [6]	34,190	8,924	11,000	14,266	.....	20,609	6,440	13,200	969	.....	19,520	6,000	13,520	.....	.....
Egypt	603	171	.....	432	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
India	131,380	32,447	88,939	9,994	.....	89,868	25,582	63,438	848	.....	80,122	24,309	55,813	.....	.....
Iraq (Northern) [6]	7,212	2,735	.....	.....	4,477	6,596	2,930	.....	.....	3,666	.....	.....	.....	.....	.....
Nepal [6]	2,542	863	.....	1,679	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
North Korea [6]	6,287	1,900	.....	.....	4,387	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Pakistan [6]	3,993	1,089	.....	2,904	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Philippines	4,846	1,419	3,427	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Yemen	1,327	287	.....	1,040	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Eni	98,344	44,009	3,911	.....	50,424	27,007	12,651	2,302	.....	12,054	11,407	4,879	847	.....	5,681
Bosnia [6]	98,344	44,009	3,911	.....	50,424	22,425	10,351	2,302	.....	9,772	6,569	3,168	847	.....	2,554
NIS [6]	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4,838	1,711	.....	.....	3,127
Tajikistan [6]	.....	.....	.....	.....	.....	4,582	2,300	.....	.....	2,282	.....	.....	.....	.....	.....
Latin America	152,526	41,170	97,994	13,362	.....	104,363	29,854	73,884	625	.....	101,143	29,661	71,482	.....	.....
Bolivia	27,277	11,087	15,807	383	.....	21,390	9,808	11,582	.....	.....	20,291	9,618	10,673	.....	.....
Costa Rica	270	49	.....	221	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Dominican Rep	4,732	889	3,203	640	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ecuador	727	195	.....	532	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
El Salvador	4,456	1,236	.....	3,220	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Guatemala	16,781	4,504	9,574	2,703	.....	11,902	3,044	8,446	412	.....	12,122	3,275	8,847	.....	.....
Guyana	316	74	.....	242	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Haiti [6]	29,275	8,040	20,754	481	.....	14,129	4,029	9,887	213	.....	14,314	4,101	10,213	.....	.....
Honduras	6,848	1,531	3,931	1,386	.....	4,673	1,161	3,512	.....	.....	4,735	1,162	3,573	.....	.....
Jamaica	2,200	600	.....	1,600	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Nicaragua	2,474	525	373	1,576	.....	1,215	351	864	.....	.....	764	233	531	.....	.....

Panama	588	210	.....	378	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Peru	56,582	12,230	44,352	.....	.....	51,054	11,461	39,593	.....	.....	48,917	11,272	37,645	.....	.....
Africa	399,451	185,863	109,205	43,894	60,489	204,357	89,650	67,892	12,932	33,883	262,147	113,542	91,028	28,075	29,502
Angola [6]	44,077	20,333	16,528	1,200	6,016	18,521	8,869	4,255	3,358	2,039	22,594	11,392	6,045	1,673	3,484
Benin	3,468	803	1,995	670	.....	1,962	520	1,442	.....	.....	1,904	501	1,403	.....	.....
Burkina Faso	12,429	4,726	7,193	510	.....	13,225	5,188	8,037	.....	.....	9,689	4,112	5,577	.....	.....
Cameroon	349	80	.....	269	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Cape Verde	6,208	1,823	3,403	982	.....	2,626	601	2,025	.....	.....	2,805	1,125	1,680	.....	.....
Chad	4,795	2,056	.....	2,739	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Eritrea	4,275	961	3,314	.....	.....	478	65	413	.....	.....	3,178	435	2,743	.....	.....
Ethiopia [6]	50,253	19,684	21,571	8,998	.....	25,524	9,945	15,579	.....	.....	24,453	9,457	14,996	.....	.....
Gambia	2,995	645	2,350	.....	.....	2,024	517	1,507	.....	.....	.....	.....	.....	.....	.....
Ghana	12,475	3,405	8,287	783	.....	12,047	3,663	8,289	95	.....	12,672	3,815	8,857	.....	.....
Guinea	2,069	263	1,806	.....	.....	441	60	381	.....	.....	986	135	851	.....	.....
Guinea Bissau [5]	1,733	322	1,411	.....	.....	.....	.....	.....	.....	.....	562	106	456	.....	.....
Kenya [6]	2,260	1,000	.....	1,260	.....	.....	.....	.....	.....	.....	5,000	1,650	3,350	.....	.....
Lesotho	.....	.....	.....	.....	.....	432	113	.....	319	.....	.....	.....	.....	.....	.....
Liberia [6]	55,662	22,975	9,297	23,390	.....	8,710	3,802	.....	4,908	.....	72,403	33,409	13,962	25,032	.....
Madagascar [6]	3,670	892	2,778	.....	.....	3,454	872	2,582	.....	.....	3,086	789	2,297	.....	.....
Mali	.....	.....	.....	.....	.....	173	38	.....	135	.....	.....	.....	.....	.....	.....
Mauritania	835	200	635	.....	.....	1,611	395	507	709	.....	699	200	499	.....	.....
Mozambique [6]	13,316	6,620	6,696	.....	.....	17,983	5,194	11,509	1,280	.....	14,511	2,772	11,739	.....	.....
Niger	690	310	.....	380	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Rwanda [6]	114,085	68,788	.....	.....	45,297	66,721	34,643	234	.....	31,844	44,808	21,334	282	.....	23,192
Sao Tome	733	210	.....	523	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Senegal	1,213	331	.....	882	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Sierra Leone [6]	26,614	11,067	9,509	592	5,446	6,174	2,731	3,443	.....	.....	17,716	8,902	7,444	1,370	.....
Somalia [6]	5,361	2,701	.....	.....	2,660	.....	.....	.....	.....	.....	4,936	2,446	.....	.....	2,490
Sudan [6]	23,521	13,099	9,352	.....	1,070	9,689	5,923	3,766	.....	.....	14,861	9,435	5,090	.....	336
Uganda [6]	6,365	2,569	3,080	716	.....	12,562	6,511	3,923	2,128	.....	5,284	1,527	3,757	.....	.....
Worldwide total	857,901	328,078	314,476	95,571	119,777	466,400	174,107	220,716	21,974	49,603	479,219	179,891	232,690	31,455	35,183
Emergency Programs															
Asia	33,502	13,185	.....	11,454	8,864	20,196	9,930	.....	6,600	3,666	4,880	1,500	.....	3,380	.....
Afghanistan	15,200	7,200	.....	8,000	.....	13,600	7,000	.....	6,600	.....	4,880	1,500	.....	3,380	.....
Bangladesh	811	187	.....	625	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

TABLE 7B–1.—FY 1998 CONGRESSIONAL PRESENTATION—P.L. 480 TITLE II—Continued

[In thousands of dollars]

Region/Country	FY 1996 final program levels					FY 1997 current program levels [1]					FY 1998 congressional presentation				
	Total	Transport	Commodity			Total	Transport	Commodity			Total	Transport	Commodity		
			PVO/CDO	WFP [3]	IEFR [4]			PVO/CDO	WFP [3]	IEFR [4]			PVO/CDO	WFP [3]	IEFR [4]
Iraq (Northern)	7,212	2,735	.....	.....	4,477	6,596	2,930	.....	.....	3,666	.....	.....	.....	.....	.....
Nepal	1,242	413	.....	829	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
North Korea	6,287	1,900	.....	.....	4,387	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Pakistan	2,750	750	.....	2,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Eni	98,344	44,009	3,911	.....	50,424	27,007	12,651	2,302	.....	12,054	11,407	4,879	847	.....	5,681
Bosnia-Hercegovina	98,344	44,009	3,911	.....	50,424	22,425	10,351	2,302	.....	9,772	6,569	3,168	847	.....	2,554
NIS	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4,838	1,711	.....	.....	3,127
Tajikistan	.....	.....	.....	.....	.....	4,582	2,300	.....	.....	2,282	.....	.....	.....	.....	.....
Latin America	3,635	1,297	2,338	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Haiti	3,635	1,297	2,338	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Africa	302,480	156,195	51,416	34,380	60,489	116,025	60,408	11,698	10,036	33,883	177,318	86,918	32,823	28,075	29,502
Angola	44,077	20,333	16,528	1,200	6,016	18,521	8,869	4,255	3,358	2,039	22,594	11,392	6,045	1,673	3,484
Ethiopia	16,018	8,088	.....	7,930	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Kenya	2,260	1,000	.....	1,260	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Liberia	55,662	22,975	9,297	23,390	.....	8,710	3,802	.....	4,908	.....	72,403	33,409	13,962	25,032	.....
Madagascar	81	47	34	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Mozambique	13,316	6,620	6,696	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Rwanda	114,085	68,788	.....	.....	45,297	66,721	34,642	234	.....	31,844	44,808	21,,334	282	.....	23,192
Sierra Leone	25,794	10,839	9,509	.....	5,446	6,174	2,731	3,443	.....	.....	17,716	8,902	7,444	1,370	.....
Somalia	5,361	2,701	.....	.....	2,660	.....	.....	.....	.....	.....	4,936	2,446	.....	.....	2,490
Sudan	23,521	13,099	9,352	.....	1,070	9,689	5,923	3,766	.....	.....	14,861	9,435	5,090	.....	336
Uganda	2,305	1,705	.....	600	.....	6,210	4,440	.....	1,770	.....	.....	.....	.....	.....	.....

Worldwide	857,901	328,078	314,476	95,571	119,777	808,827	309,019	327,129	70,786	101,893	799,452	302,462	359,350	89,186	48,454
Regular	419,940	113,392	256,811	49,737	.....	303,172	91,118	206,716	5,338	.....	285,614	86,594	199,020	.....	.....
Emergency	437,961	214,686	57,665	45,834	119,777	163,228	82,989	14,000	16,636	49,603	193,605	93,297	33,670	31,455	35,183
Unallocated Balance	.....	.....	.....	.....	.....	342,427	134,912	106,413	48,812	52,290	320,233	122,571	126,660	57,731	13,271
Asia	207,580	57,035	103,366	38,315	8,864	130,673	41,952	76,638	8,417	3,666	104,522	31,809	69,333	3,380	.....
Regular	174,078	43,851	103,366	26,861	.....	110,477	32,022	76,638	1,817	.....	99,642	30,309	69,333	.....	.....
Emergency	33,502	13,185	.....	11,454	8,864	20,196	9,930	.....	6,600	3,666	4,880	1,500	.....	3,380	.....
Eni	98,344	44,009	3,911	.....	50,424	27,007	12,651	2,302	.....	12,054	11,407	4,879	847	.....	5,681
Regular	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Emergency	98,344	44,009	3,911	.....	50,424	27,007	12,651	2,302	.....	12,054	11,407	4,879	847	.....	5,681
Latin America	152,526	41,170	97,994	13,362	.....	104,364	29,854	73,884	625	.....	101,143	29,661	71,482	.....	.....
Regular	148,891	39,873	95,656	13,362	.....	104,363	29,854	73,884	625	.....	101,143	29,661	71,482	.....	.....
Emergency	3,635	1,297	2,338	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Africa	399,451	185,863	109,205	43,894	60,489	204,357	89,650	67,892	12,932	33,883	262,147	113,542	91,028	28,075	29,502
Regular	96,971	29,668	57,789	9,514	.....	88,332	29,242	56,194	2,896	.....	84,829	26,624	58,205	.....	.....
Emergency	302,480	156,195	51,416	34,380	60,489	116,025	60,408	11,698	10,036	33,883	177,318	86,918	32,823	28,075	29,502
Unallocated balance: Total	.....	.....	.....	.....	.....	342,427	134,912	106,413	48,812	52,290	320,233	122,571	126,660	57,731	13,271

TABLE 7B–1.—FY 1998 CONGRESSIONAL PRESENTATION—P.L. 480 TITLE II—Continued

[In thousands of dollars]

Region/Country	FY 1996 final program levels					FY 1997 current program levels [1]					FY 1998 congressional presentation				
	Total	Transport	Commodity			Total	Transport	Commodity			Total	Transport	Commodity		
			PVO/CDO	WFP [3]	IEFR [4]			PVO/CDO	WFP [3]	IEFR [4]			PVO/CDO	WFP [3]	IEFR [4]
PVO Non-Emergency	.....	.....	.....	.....	.....	101,904	33,480	68,424	.....	.....	123,364	40,888	82,476	.....	.....
WFP Pledge	.....	.....	.....	.....	.....	88,750	39,938	.....	48,812	.....	104,966	47,235	.....	57,731	.....
Emergency	.....	.....	.....	.....	.....	95,073	42,783	.....	.....	52,290	23,928	10,657	.....	.....	13,271
Overall Title II	.....	.....	.....	.....	.....	56,700	18,711	37,989	.....	.....	67,975	23,791	44,184	.....	.....
Stock Adjustment	(17,998)	.....	.....	.....	.....	(18,827)	.....	.....	.....	.....	(1,800)	.....	.....	.....	.....
PVO Fallout	(13,500)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Carryin	(18,576)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Section 202(e)	25,000	.....	.....	.....	.....	28,000	.....	.....	.....	.....	28,000	.....	.....	.....	.....
Farmer To Farmer	10,000	.....	.....	.....	.....	10,798	.....	.....	.....	.....	11,348	.....	.....	.....	.....
Transfer from Title I	(11,600)	.....	.....	.....	.....	(798)	.....	.....	.....	.....	.....	.....	.....	.....	.....
Transfer from Title III	(10,127)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Transfer To Title III	.....	.....	.....	.....	.....	9,000	.....	.....	.....	.....	.....	.....	.....	.....	.....
Program total	821,100	.....	.....	.....	.....	837,000	.....	.....	.....	.....	837,000	.....	.....	.....	.....

[1] Approved programs as of January 1997.
[2] Based on season average prices provided by USDA/FAS November 1996. Current purchases indicate that season average prices may be substantially understated.
[3] USAID approves World Food Program (WFP) distribution to assure compliance with all laws and provides broad financial overview to ensure U.S. funds are appropriately accounted for. FY 1998 request includes pledge components at $50M for development and $112.5M for protracted relief operations.
[4] International Emergency Food Reserve (IEFR), implemented by WFP.
[5] Title II activity continues in FY97 at no cost to fiscal year budget.
[6] Includes emergency program. Emergency levels are detailed in separate table (EMERGENCY PROGRAMS) on following page.

TABLE 7B–2.—FY 1998 CONGRESSIONAL PRESENTATION—P.L. 480 TITLE II

[In metric tons]

Region/Country	FY 1996 final program levels				FY 1997 current program levels				FY 1998 congressional presentation			
	Total	PVO/CDO	WFP [2]	IEFR [3]	Total	PVO/CDO	WFP [2]	IEFR [3]	Total	PVO/CDO	WFP [2]	IEFR [3]
Asia/Near East	479,874	299,676	150,498	29,700	350,424	281,274	49,250	19,900	294,474	274,474	20,000	.....
Afghanistan [6]	40,000	.....	40,000	.....	40,000	.....	40,000	.....	20,000	.....	20,000	.....
Bangladesh [6]	115,900	55,000	60,900	.....	85,870	80,000	5,870	.....	80,000	80,000	.....	.....
Egypt	1,370	.....	1,370	.....	.....	.....	.....	.....	.....	.....	.....	.....
India	259,579	233,321	26,258	.....	204,654	201,274	3,380	.....	194,474	194,474	.....	.....
Iraq (Northern) [6]	16,600	.....	.....	16,600	19,900	.....	.....	19,900	.....	.....	.....	.....
Nepal [6]	3,950	.....	3,950	.....	.....	.....	.....	.....	.....	.....	.....	.....
North Korea [6]	13,100	.....	.....	13,100	.....	.....	.....	.....	.....	.....	.....	.....
Pakistan [6]	14,520	.....	14,520	.....	.....	.....	.....	.....	.....	.....	.....	.....
Philippines	11,355	11,355	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Yemen	3,500	.....	3,500	.....	.....	.....	.....	.....	.....	.....	.....	.....
Eni	187,750	9,750	.....	178,000	55,760	6,560	.....	49,200	31,500	2,000	.....	29,500
Bosnia [6]	187,750	9,750	.....	178,000	46,560	6,560	.....	40,000	13,000	2,000	.....	11,000
NIS [6]	.....	.....	.....	.....	.....	.....	.....	.....	18,500	.....	.....	18,500
Tajikistan [6]	.....	.....	.....	.....	9,200	.....	.....	9,200	.....	.....	.....	.....
Latin America	307,173	251,693	55,480	.....	207,507	205,847	1,660	.....	206,948	206,948	.....	.....
Bolivia	49,236	48,816	420	.....	43,590	43,590	.....	.....	42,743	42,743	.....	.....
Costa Rica	390	.....	390	.....	.....	.....	.....	.....	.....	.....	.....	.....
Dominican Rep	6,942	5,852	1,090	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ecuador	1,390	.....	1,390	.....	.....	.....	.....	.....	.....	.....	.....	.....
El Salvador	12,210	.....	12,210	.....	.....	.....	.....	.....	.....	.....	.....	.....
Guatemala	43,556	27,256	16,300	.....	24,770	24,250	520	.....	27,095	27,095	.....	.....
Guyana	700	.....	700	.....	.....	.....	.....	.....	.....	.....	.....	.....
Haiti [6]	60,235	58,695	1,540	.....	32,671	31,531	1,140	.....	32,808	32,808	.....	.....
Honduras	19,809	12,289	7,520	.....	11,983	11,983	.....	.....	12,000	12,000	.....	.....
Jamaica	8,000	.....	8,000	.....	.....	.....	.....	.....	.....	.....	.....	.....
Nicaragua	4,804	944	3,860	.....	2,806	2,806	.....	.....	1,866	1,866	.....	.....
Panama	2,060	.....	2,060	.....	.....	.....	.....	.....	.....	.....	.....	.....

TABLE 7B–2.—FY 1998 CONGRESSIONAL PRESENTATION—P.L. 480 TITLE II—Continued

[In metric tons]

Region/Country	FY 1996 final program levels				FY 1997 current program levels				FY 1998 congressional presentation			
	Total	PVO/CDO	WFP [2]	IEFR [3]	Total	PVO/CDO	WFP [2]	IEFR [3]	Total	PVO/CDO	WFP [2]	IEFR [3]
Peru	97,841	97,841	.....	.....	91,687	91,687	.....	.....	90,436	90,436	.....	.....
Africa	758,523	355,213	170,810	232,500	415,224	252,214	58,130	104,880	508,331	320,641	105,490	82,200
Angola [6]	87,440	54,280	10,000	23,160	43,100	22,720	11,500	8,880	38,120	23,820	2,600	11,700
Benin	7,427	5,427	2,000	.....	4,883	4,883	.....	.....	4,651	4,651	.....	.....
Burkina Faso	21,673	21,093	580	.....	23,058	23,058	.....	.....	19,453	19,453	.....	.....
Cameroon	800	.....	800	.....	.....	.....	.....	.....	.....	.....	.....	.....
Cape Verde	17,670	14,220	3,450	.....	4,810	4,810	.....	.....	15,000	15,000	.....	.....
Chad	9,140	.....	9,140	.....	.....	.....	.....	.....	.....	.....	.....	.....
Eritrea	11,683	11,683	.....	.....	520	520	.....	.....	3,481	3,481	.....	.....
Ethiopia [6]	106,125	64,535	41,590	.....	51,249	51,249	.....	.....	48,319	48,319	.....	.....
Gambia	5,163	5,163	.....	.....	4,138	4,138	.....	.....	.....	.....	.....	.....
Ghana	40,084	37,364	2,720	.....	43,493	43,373	120	.....	45,251	45,251	.....	.....
Guinea	2,100	2,100	.....	.....	480	480	.....	.....	1,080	1,080	.....	.....
Guinea Bissau [4]	2,580	2,580	.....	.....	.....	.....	.....	.....	850	850	.....	.....
Kenya [6]	4,000	.....	4,000	.....	.....	.....	.....	.....	20,492	20,492	.....	.....
Lesotho	.....	.....	.....	.....	500	.....	500	.....	.....	.....	.....	.....
Liberia [6]	111,010	28,920	82,090	.....	17,600	.....	17,600	.....	146,530	47,640	98,890	.....
Madagascar [6]	6,855	6,855	.....	.....	6,976	6.976	.....	.....	6,307	6,307	.....	.....
Mali	.....	.....	.....	.....	170	.....	170	.....	.....	.....	.....	.....
Mauritania	1,603	1,603	.....	.....	3,160	1,600	1,560	.....	1,603	1,603	.....	.....
Mozambique [6]	37,370	37,370	.....	.....	65,082	55,572	9,510	.....	33,714	33,714	.....	.....
Niger	1,380	.....	1,380	.....	.....	.....	.....	.....	.....	.....	.....	.....
Rwanda [6]	176,310	.....	.....	176,310	96,650	650	.....	96,000	59,260	760	.....	58,500
Sao Tome	1,550	.....	1,550	.....	.....	.....	.....	.....	.....	.....	.....	.....
Senegal	4,410	.....	4,410	.....	.....	.....	.....	.....	.....	.....	.....	.....
Sierra Leone [6]	49,280	29,490	1,760	18,030	11,770	11,770	.....	.....	28,840	24,840	4,000	.....
Somalia [6]	10,000	.....	.....	10,000	.....	.....	.....	.....	9,000	.....	.....	9,000
Sudan [6]	34,030	29,030	.....	5,000	11,890	11,890	.....	.....	18,800	15,800	.....	3,000
Uganda [6]	8,840	3,500	5,340	.....	25,695	8,525	17,170	.....	7,580	7,580	.....	.....

Worldwide Total	1,733,320	916,332	376,788	440,200	1,028,915	745,895	109,040	173,980	1,041,253	804,063	125,490	111,700
Emergency Programs												
Asia	82,670		52,970	29,700	59,900		40,000	19,900	20,000		20,000	
Afghanistan	40,000		40,000		40,000		40,000		20,000		20,000	
Bangladesh	1,020		1,020									
Iraq (Northern)	16,600			16,600	19,900			19,900				
Nepal	1,950		1,950									
North Korea	13,100			13,100								
Pakistan	10,000		10,000									
Eni	187,750	9,750		178,000	55,760	6,560		49,200	31,500	2,000		29,500
Bosnia-Hercegovina	187,750	9,750		178,000	46,560	6,560		40,000	13,000	2,000		11,000
NIS									18,500			18,500
Tajikistan					9,200			9,200				
Latin America	6,300	6,300										
Haiti	6,300	6,300										
Africa	549,030	179,190	137,340	232,500	196,010	47,030	44,100	104,880	300,550	112,860	105,490	82,200
Angola	87,440	54,280	10,000	23,160	43,100	22,720	11,500	8,880	38,120	23,820	2,600	11,700
Ethiopia	36,250		36,250									
Kenya	4,000		4,000									
Liberia	111,010	28,920	82,090		17,600		17,600		146,530	47,640	98,890	
Madagascar	100	100										
Mozambique	37,370	37,370										
Rwanda	176,310			176,310	96,650	650		96,000	59,260	760		58,500
Sierra Leone	47,520	29,490		18,030	11,770	11,770			28,840	24,840	4,000	
Somalia	10,000			10,000					9,000			9,000
Sudan	34,030	29,030		5,000	11,890	11,890			18,800	15,800		3,000
Uganda	5,000		5,000		15,000		15,000					
Worldwide	1,733,320	916,332	376,788	440,200	1,803,915	1,115,895	309,040	378,980	1,707,343	1,213,663	329,780	163,900
Regular	907,570	721,092	186,478		717,245	692,305	24,940		689,203	689,203		
Emergency	825,750	195,240	190,310	440,200	311,670	53.590	84,100	173,980	352,050	114,860	125,490	111,700

TABLE 7B–2.—FY 1998 CONGRESSIONAL PRESENTATION—P.L. 480 TITLE II—Continued

[In metric tons]

Region/Country	FY 1996 final program levels				FY 1997 current program levels				FY 1998 congressional presentation			
	Total	PVO/CDO	WFP [2]	IEFR [3]	Total	PVO/CDO	WFP [2]	IEFR [3]	Total	PVO/CDO	WFP [2]	IEFR [3]
Unallocated Balance	.....	.....	.....	.....	775,000	370,000	200,000	205,000	666,090	409,600	204,290	52,200
Asia	479,874	299,676	150,498	29,700	350,424	281,274	49,250	19,900	294,474	274,474	20,000	.....
Regular	397,204	299,676	97,528	.....	290,524	281,274	9,250	.....	274,474	274,474	.....	.....
Emergency	82,670	.....	52,970	29,700	59,900	.....	40,000	19,900	20,000	.....	20,000	.....
Eni	187,750	9,750	.....	178,000	55,760	6,560	.....	49,200	31,500	2,000	.....	29,500
Regular	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Emergency	187,750	9,750	.....	178,000	55,760	6,560	.....	49,200	31,500	2,000	.....	29,500
Latin America	307,173	251,693	55,480	.....	207,507	205,847	1,660	.....	206,948	206,948	.....	.....
Regular	300,873	245,393	55,480	.....	207,507	205,847	1,660	.....	206,948	206,948	.....	.....
Emergency	6,300	6,300	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Africa	758,523	355,213	170,810	232,500	415,224	252,214	58,130	104,880	508,331	320,641	105,490	82,200
Regular	209,493	176,023	33,470	.....	219,214	205,184	14,030	.....	207,781	207,781	.....	.....
Emergency	549.030	179,190	137,340	232,500	196,010	47,030	44,100	104,800	300,550	12,860	105,490	82,200
Unallocated Balance:	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total	.....	.....	.....	.....	775,000	370,000	200,000	205,000	666,090	409,600	204,290	52,200

PVO Non-Emergency					270,000	270,000			283,000	283,000		
WFP Pledge					200,000		200,000		204,290		204,290	
Emergency					205,000			205,000	52,200			52,200
Overall Title II					100,000	100,000			126,600	126,600		
Stock Adjustment	(34,057)				(41,595)				(4,500)			
Program Total	1,699,263		1,937,628		1,762,320		2,026,668		1,702,843		2,025,215	
			MTGE [5]				MGTE				MTGE	

[1] Approved programs as of January 1997.
[2] USAID approves World Food Program (WFP) distribution to assure compliance with all laws and provides broad financial overview to ensure U.S. funds are appropriately accounted for.
[3] International Emergency Food Reserve (IEFR), implemented by WFP.
[4] Title II activity continues in FY97 at no cost to fiscal year budget.
[5] MTGE=Metric Ton Grain Equivalent.
[6] Includes emergency programs. Emergency levels are detailed in separate table (EMERGENCY PROGRAMS) on following page.

May 1, 1997

TO: Betty Alonso
Committee on Foreign Relations
Room SD 450, Dirksen Building
Washington, D.C. 20510

FM: Veronica T. Young
Bureau for Legislative and Public Affairs
U.S. Agency for International Development
Washington, D.C. 20523-0016

SUBJECT: USAID BUDGET REQUEST AND OVERSIGHT

Attached are the responses for the record and edited transcript from USAID Administrator J. Brian Atwood's testimony before the Senate Foreign Relations Committee on February 26, 1997 on USAID's Budget Request and Oversight. The response to Senator Biden's question on Congressional Notifications is not included in this package, but will be forwarded separately.

If you have any questions or if I can be of further assistance, please feel free to call me on 202-647-9144. Thank you.

Attachments: a/s

RESPONSES OF MR. ATWOOD TO QUESTIONS ASKED BY SENATOR GRAMS

Question. Do you agree that U.S. support for foreign treatment centers for victims of torture could be an important instrument to advance human rights and democracy abroad and, if so, what initiatives might you propose for assisting these treatment centers?

Answer. The advancement of democracy and human rights is a principal concern of USAID foreign assistance programs overseas. Programs which promote the protection of human rights are paramount in those countries which have been victimized by harsh dictatorships and/or civil strife. However, these programs vary widely. In some cases, USAID supports local human rights organizations which monitor human rights abuses, provide legal services, or conduct public education campaigns; or we may directly support the creation of governmental organizations such as human rights ombudsman offices, prison registries, etc. In other cases, such as with Turkey, specific grants are provided to augment the capacity of human rights organizations and the medical profession to track and identify cases of torture and to ultimately improve treatment. These programming decisions are made on a case by case basis. Unfortunately, USAID does not have the resources necessary to create or replicate international centers for the treatment of torture victims. This is something that the international community including other donors, non governmental organizations, and private voluntary groups need to address. USAID may be supportive of an international conference on this topic in the future.

Question. Has the assistance for war victims fund been used to support torture victims? How much funding has been appropriated and why has the program been terminated?

Answer. The War Victims Fund began in 1989 initiated by Senator Patrick Leahy and has been implemented by USAID. It continues to this day and its purpose is to provide prosthetics and orthotics to civilian victims of war. Each year $5 million is made available for the Fund. The Fund currently operates in Angola, Cambodia, El Salvador, Laos, Liberia, Mozambique, Sri Lanka and Vietnam. Especially in Angola, Cambodia and Mozambique, the War Victims Fund is primarily and effectively treating people injured by landmines accidents.

There is no specific targeting of torture victims. However, many of the beneficiaries of the fund are ex-combatants and may have been subject to torture.

Question. To what extent is AID funding programs or making grants to assist victims of torture?

Answer. USAID is funding a grant to the Center for the Victims of Torture to carry out a program in Turkey to provide training and technical assistance to the Human Rights Foundation of Turkey (HRFT) and the Turkish Medical Association to build clinical capacity in treatment centers operated by the HRFT and to strengthen forensic skills and support for human rights within Turkey's medical

professions. The grant is almost complete and may lead to a major international conference on the treatment of torture victims.

Under the Trauma, Social Welfare, and Humanitarian Assistance project, USAID has also provided support for NGO programs that addressed issues of community health and training activities for mental health providers, teachers, volunteers and doctors working with traumatized refugees and displaced populations in the former Yugoslavia.

Catholic Relief Services is working with local psychological associations to provide training on post-traumatic stress syndrome and other psychosocial treatments. In FY 1994, $1.9 million was provided in support of this effort. CRS has used private resources to continue the program.

The International Rescue Committee received funding to develop local organizations' capacity to meet the psychosocial needs of war-traumatized women, children and other vulnerable groups. IRC estimates that roughly 80 percent of its program targets women and children. A total of $9.5 million has been proved since FY 1993.

Question. There is reportedly a belief by some USAID officials that USAID programs should focus on building local public economies in order to generate economic wealth and prosperity and that this approach would have special applicability in Africa. Groups that work in this area have found that effective and well-structured local public economies are key to economic growth and policy reform. Is USAID willing to support projects that work with local institutions and organizations to create self-governing systems?

Answer. USAID is indeed willing to support projects that work with local institutions and organizations to create self-governing systems.

USAID's "New Partnership Initiative" explicitly promotes partnerships among local businesses, NGOs, and local governments at the community level with just this goal in mind.

In Kazakstan, USAID helped residents form homeowners associations to take control over the management and maintenance of their buildings. The demonstrated benefits of homeowners associations created a grassroots movement and increased demand for technical assistance. Within a year, 3600 associations had formed across the country, and the national government adopted policies to make it easier for them to register.

Over the past ten years, USAID-supported Community-Based Natural Resource Management programs have enabled communities in a half-dozen African countries to manage natural resource-based enterprises that increase incomes, diversify local economies, and reduce degradation rates.

Question. There have reportedly been complaints both within and outside of USAID, that although there is an Economic Growth Center in the Global Bureau, the agency pays very little attention to such critical issues as economic growth, decentralization, and self-governance. Organizations (such as the International Center for Self-Governance, IRIS, and the Institute for Policy Reform) that have been working on these critical issues are losing their funding or finding it severely reduced. If USAID is indeed interested in promoting economic reform, why is it not putting more funds into these projects.

Answer. Funding available to support activities in economic policy reform, both in the Economic Growth Center and elsewhere in the USAID, has diminished sharply owing to two factors.

First, overall funding levels have declined substantially, particularly development assistance.

Second, within this shrinking account, a number of activities have been protected from cuts, or even increased, reflecting Congressional directives, Administration priorities, and our own concerns. This has imposed much sharper than proportional cuts on unprotected activities such as economic policy reform.

The development record of recent decades has demonstrated that a country's economic policy and institutional frameworks are key determinants of its development performance. Organizations such as those mentioned above have played, and must continue to play an important role in reinforcing the efforts of AID staff to improve economic policies and strengthen institutions.

RESPONSES OF MR. ATWOOD TO QUESTIONS ASKED BY SENATOR HELMS

Question. Mr. Atwood, one criticism made of A.I.D. projects is that they never seem to end. And many believe that the reason projects continue on in perpetuity is that without A.I.D. support the project will fall apart.

You have seen the article in last Tuesday's Washington Post about A.I.D.'s $28 million project in Zimbabwe, known as "CAMPFIRE." Regardless of how one feels about the philosophy of the project, there appear to be quite a few management problems with it. I am distressed to read that according to A.I.D.'s own internal evaluation, the project is "subject to collapse once donor financing is withdrawn."

Why does it appear that so many A.I.D. projects are not sustainable and how do you intend to ensure that they do continue forward after U.S. taxpayer support has ended?

Answer. Elsewhere, Mr. Chairman, you draw a useful distinction between project inputs and outputs. When we talk about sustainability, we mean the results of the project continue beyond its existence; that is, the conditions which made the project necessary have been changed by the project's outputs.

This is not a simple or easy task. For example, in Bangladesh where increased rice production was essential for food security, we worked on fertilizer distribution for approximately 15 years. Initially, there was little fertilizer and not much of a distribution system, but we helped build a marketing system of private sector importers, dealers and distributors so that fertilizer is now available throughout the country at a reasonable cost. Simultaneously, other donors helped establish markets for irrigation equipment and improved seeds. None of these programs were finished with a single project nor did they go forward smoothly given the conditions of the country and a bias for big government. In the end, however, rice production has reached historic highs and farmers recognize markets meet their needs better than government distribution of fertilizer. Although some backsliding has occurred since completion of the USAID fertilizer projects, the scale and vitality of the current fertilizer markets will deter a reversion to public sector distribution. The condition we sought to change has changed.

We have taken several steps to increase the sustainability of our project results. First, we now encourage greater participation by those whom the project is intended to benefit in its design to ensure that we target achievable results and have the commitment of those who must change to ensure the results are sustainable.

Second, we now encourage project officers and mission directors to focus on the results the project is designed to achieve, rather than inputs alone, and to adjust project activities to ensure our best efforts go into achieving the desired result. It is in this context that project evaluations, such as the CAMPFIRE Project evaluation you refer to, are important. They help the project management team identify new or modify existing activities to better achieve the result.

To address the concerns of the January 1994 CAMPFIRE evaluation, project management has given increased attention to environmental education in the schools, expanded the scientific basis on which recommendations for improved environmental management are made, and provide increased management support to the CAMPFIRE Association itself. We believe such changes will contribute to the sustainability of the project's planned results.

It is worth noting that the evaluation you cite, in addition to noting problems with the project, also concluded that it was delivering meaningful benefits to the residents of the project area. Finally, performance is now the single most important factor we use in making budget and resource allocation decisions. Each year, all of the objectives of our missions and Washington offices will be identified as a top, average or bottom performer. The bottom performers will be scrutinized to see if actions can or have been taken to improve their performance and future funding adjusted accordingly.

We continue to be concerned with the sustainability of our project results and will continue to make adjustments to our management systems to produce more sustainable results.

Question. Mr. Atwood, you have attempted to change USAID's mode of operation from focusing on "inputs" to focusing on real results. That is an important change. But it can only be successful if USAID personnel fully understand the difference between the two.

Let me cite one example from USAID's 1997 Congressional Presentation Document. USAID is carrying out a population program in Ethiopia which is expected to cost American taxpayers $17 million over 8 years. According to USAID, one of the major "results" of this project is to increase the number of condoms distributed by USAID annually from 5.8 million to 9 million in 2002. That hardly appears to be a "result". The fact that more condoms are distributed is an input rather than an output.

How does USAID intend to develop real results, so that we can effectively monitor the success or failure of USAID's programs?

Answer. USAID's reengineered systems ensure that managers at all levels plan, manage, monitor, and report on real results. All operating units set and manage to-

ward multi-year strategic objectives. These delineate specific results which will be achieved over the period of the strategy. Annually, each unit reports on progress toward the achievement of these results.

These new USAID systems enabled us to monitor and report this year to the Congress on such important real results in Africa as increased food production in Senegal and Mali; primary school enrollment, particularly for girls, in Malawi and Guinea; child survival particularly in Eastern and Southern Africa; and use of voluntary family planning in Kenya, Ghana, and Senegal.

The case, that you cite, in Ethiopia, provides a good example of how regular tracking of early results can give us confidence that we are on the right track for achieving the more significant long term results we expect to achieve by end of the strategic planning period.

In Ethiopia, which recently began the difficult transition from crisis to development, few citizens have access to and use essential primary and preventive health care services. In the new health assistance program initiated in the fall of 1995, our objective is to increase access to and use of essential services. We are focusing in particular on the delivery of essential health services to rural women and children living in one of the largest and historically-disadvantaged regions of Ethiopia, the Southern Nations and Nationalities Region (SNNPR). We expect to increase by 20% the number of women and children using such services. Achieving this result will mean that USAID-assisted rural health systems will have provided life saving services to about 1.6 million children and two million women. Nationwide, we expect to contribute to increased access for at least twice as many women and children.

USAID's results tracking system monitors increases in the use of important child survival, maternal health, family planning and HIV/AIDS preventive services or practices. Many indicators rely on data from national or regional surveys which are only available on a periodic basis. To monitor annual progress, we use other indicators which are available more frequently, such as the indicator you cited condom sales, as proxy measures.

Increases in condom sales tell us not only that Ethiopians have increased access to family planning and HIV/AIDS prevention and control information and products but that they are using that information and their own resources to protect themselves and their families.

USAID contributes to increased access through social marketing programs which use commercial systems to provide information and supplies. In 1996, the social marketing project results exceeded everyone's expectations in marketing over 20 million condoms. Now that USAID has baseline data, which were not available last year, it has increased the life of program target for condom sales to 132 million.

Question. Mr. Atwood, the President's 1998 budget request includes $528 million for a new initiative for Russia, to be known as the Partnership for Freedom. The President's budget is short on details about how this new program will operate, but it appears that increasing U.S. private sector investment is one of its major goals. Over the years, there has been considerable tension between USAID and other federal agencies in the implementation of U.S. foreign aid programs for the New Independent States.

- How do you envision this new Partnership of Freedom operating? Who will have ultimate control -- USAID or the NIS Coordinator's office in the State Department?
- Given that this new program focuses on investment and trade, should USAID have any role in it whatsoever?

Answer. The President's 1998 budget request includes $900 million for the New Independent States of the former Soviet Union. $241.5 million of that amount is designated for Russia.

The Partnership for Freedom (budgeted at $516 of this request for the NIS region) will focus on promoting economic growth and the development of democratic institutions. The roles of the NIS Coordinator and USAID will remain as they are now. The Coordinator, in consultation with the implementing agencies, will determine budget allocations among the NIS recipient countries and among the USG agencies charged with developing and implementing assistance activities. USAID will remain the single largest implementing agency for assistance to the NIS.

USAID will continue to play a crucial role in promoting economic growth in the NIS through increased trade and investment. Many of the technical assistance efforts that USAID conducts -- tax reform, development of capital markets and commercial banking, reform of the policy/legal/regulatory regime facing businesses -- will remain central to promoting increased trade and investment in the region. In addition, USAID will continue to support the Enterprise Funds and the growth of

small and micro enterprises, increasingly in partnership with U.S. businesses and NGOs.

Question. Mr. Atwood, the Congressional Budget Office recently completed its study of the effectiveness of foreign aid. It concludes, basically, that the linkage between foreign aid and a country's development is dubious at best. Let me quote from CBO testimony:

"Foreign aid may allow a country's economy to get beyond the point where it is eating its seed corn. However, as pointed out in the World Bank's 1990 World Development Report, most aid to the poorest countries does not even do that -- it just helps their economies reach the subsistence level of consumption."

More to the point, CBO stated that, "Foreign aid may help **or hurt** [emphasis added] the development process if it is given to countries that adopt policies that are not conducive to growth."

- How do you counter the Congressional budget Office's claim that foreign aid, in many instances, has not shown to make a difference in a country's development?
- In what country has USAID made a quantifiable difference over the long-term?
- The U.S. has provided foreign aid to many of the poorest nations for more than 50 years. what leads you to believe that in some cases, U.S. aid will not be needed for at least 50 more years?

Answer. Getting the policies "right" is clearly a key determinant in the development process. We have looked at the record of ninety countries that currently account for 3 billion people and which comprised most of the developing world in 1965 (excluding China). Today, 80 per cent of these people live in countries that have made or are making clear, significant progress. Indeed, some are already graduates (and in some cases have become aid donors), and others can be expected to graduate within a decade or so.

The remainder, less than 20 per cent of the overall 3 billion, live in roughly 40 countries, mostly in sub-Saharan Africa, that have made less or intermittent progress. This includes a subgroup -- Sudan, Zaire, Somalia, Liberia, Rwanda, Burma, and Afghanistan, comprising about 160 million people -- that are in crisis or stalemate. These countries represent the core remaining development challenge over the next several decades.

There has been significant progress in almost all of these countries in terms of human resource development. However, they started from an extremely low base. For instance, life expectancy at birth in 1960 in many African countries was less than 35 years. Consequently, even with significant improvements many have barely reached the level (e.g. life expectancy around 50 years) that today's middle-income countries (e.g. Philippines, Ecuador, El Salvador) had attained in 1960. They clearly still have a long way to go.

Several considerations warrant optimism that progress in many of these countries will be steadier and more rapid in the future than in the past.

First, based on the lessons of success and failure, we have a much better appreciation of what's required for development progress. In particular, there is a fairly widespread consensus on what works and what doesn't work. For instance there is now widespread acceptance of the importance of market-friendly policies and institutions, and investments in human resources. With more open political systems, political leaders in poor countries will be judged based on what an increasing number of developmentally successful countries have achieved.

Second, the record of experience suggests that successful countries often pass through a period of "accumulation" -- during which human resources develop, institutions strengthen, and national cohesion increases -- before reaching a period of rapid or at least steady economic and social progress. It is important to recall that at various times countries such as Korea, Indonesia, Bangladesh, and Uganda were regarded as developmentally hopeless, and subsequently achieved dramatic improvements in development performance

Third, the development community is no longer hampered by constraints imposed by the Cold War. This should make us freer to allocate aid based on developmental rather than near-term political and security considerations, both among and within countries, thereby enhancing the effectiveness of aid.

Finally, there has already been a great deal of progress in terms of graduation, and more is clearly on the horizon, both in developing and transitional countries. This should enable us to focus scarce resources more clearly and effectively on a diminishing number of needy countries, particularly those making reasonable self-help efforts.

Question. Mr. Atwood, Let me ask about A.I.D.'s results-based budgeting A.I.D.'s Congressional Presentation Document, which was just submitted on Monday Feb-

ruary 24, 1997, lists specific projects that A.I.D. is carrying out around the world. For each project, A.I.D. is supposed to list the amount of money to be spent and the goals to be achieved. Yet, many A.I.D. projects appear to be undertaken before the proposed goals are determined. Let me cite just a few examples:

- In Ghana, a $1.5 million democracy program for which no results have yet been determined;
- In Brazil, a $750 thousand energy project which began in 1995, yet today still has no baseline or results that can be measured;
- In Mongolia, a $2 million power production project that began in 1992 and still has no established baseline or targeted results.

How can A.I.D. justify spending money on projects for which it has not identified its goals?

When will baseline and targets for these projects be determined?

Answer. Mr. Chairman, USAID does not obligate funds for specific activities until it has approved objectives, indicators and performance targets in place. USAID under its results oriented management system does in fact require that all strategic objectives have objectives and verifiable indicators and specific targets of progress in accomplishing these objectives.

In the case of Mongolia, the mission's approved objective in the energy sector has been to provide--"emergency support to the Mongolian power production system." As stated on page 170 of the CP, this objective was to be achieved through the provision of spare parts, commodities and limited technical assistance. USAID undertook this emergency energy assistance project in 1992 at the urgent request of the Mongolian government. At that time, the Mongolians were faced with the very real prospect of catastrophic failure of their Soviet built power plants. Increasing the reliability of these systems has required efforts focused initially on the emergency needs of an antiquated infrastructure, and subsequently, on the longer term viability of the energy sector.

As indicated on page 171 of the CP results indicators have been identified for this activity. The first ("Disruption averted to the energy production system") addresses Mongolia's need to maintain year-to-year reliability of the electricity and heating systems. Through the efforts described in the CP, there have been no major disruption in energy service. In short, the Mission's objective has been achieved.

The mission plans to initiate work on a new objective in the energy sector. This objective entitled "Sustainable improvements to the energy sector," has not been fully designed. As such, the baseline and targets for this strategic objective have not yet been approved. Accordingly, no funds have been obligated.

The energy activity in Brazil was designed to accomplish four specific objectives: a) policy changes that result in increased participation of the private sector in the electricity subsector; b) greater the use of commercially proven renewable energy technologies, c) the adoption of energy efficiency measures; and d) train individuals in the various areas of sustainable energy production. Because this program was approved before USAID's current results tracking system was in place, pre-existing work plans and contracts are being amended to establish baseline and performance targets. This does not mean the project has not achieved significant progress to date. For example,

- As a result of work with Brazilian decision makers, regulators, congressmen, and other, the Government of Brazil (GoB) has decided to permanently earmark federal investment funds to energy efficiency, rural electrification and support loans and programs for low income consumers, including approximately $60 million of GoB funds will be assigned to new energy efficiency projects in 1997.
- Also as a result of the project's technical assistance efforts to the GoB, a $150 million energy efficiency loan request to the World Bank along with an accompanying grant proposal to the World Bank's Global Environment Facility is being prepared by the GoB. It is expected that the loan and grant will be leveraged with another $130 million provided by the GoB and power utilities. This will be the first major loan by the World Bank in which funds will be dedicated entirely to improving the efficiency of electricity supply and end use.

Technical assistance was also instrumental in encouraging the regional power utility in Manaus to adopt and implement policies based on commercial power management.

Finally, the CrediBanco of Brazil also benefited from the project through technical assistance which assisted in identifying and creating a commercial fund to finance energy efficiency and renewable energy projects.

In the case of the Democracy strategic objective in Ghana, we have not spent any funds. Our field mission is still working on finalizing the design of the strategic objective. The results framework, including baseline indicators, will be reviewed in

Washington later this spring. If it is approved then, and only then, under the guidelines of the Agency's new management system can funds can be for implementation.

Question. Mr. Atwood, the U.S. free enterprise system has proven itself to be the most powerful engine for creating wealth, jobs, higher standards of living, and every other material measure of success any people have ever known. Indeed, our successful private enterprise economy is the defining element of the American nation. Because we have a free economy we have free and democratic institutions. All these things make America the envy of the world.

I want to explore with you your thinking about how the United States foreign economic development assistance programs, which are directed to developing countries and emerging market democracies, can harness the virtues of our free enterprise economy.

Tell me, what is your thinking about the most appropriate role for the U.S. private business sector in our Foreign Development Assistance programs?

Answer. Mr. Chairman, I share your vision and understanding of the pivotal role of the U.S. private sector in fomenting and sustaining economic development around the globe. Our development experience has taught us that private sector-driven and -supported development is key to creating lasting, beneficial change.

U.S. private business plays many roles in our foreign development assistance programs. They are our partners in development, our customers and our contractors. For example, the U.S. private sector objectives of generating new and sustained markets parallel our own objectives of creating favorable business environments in developing countries. Such environments encourage free capital flows, investment opportunities and "rules of the game" which are reasonable, understood and enforceable.

Similarly, USAID depends on the networks of NGOs and PVOs involved in creating economic growth in developing countries to help advise and focus our development assistance. Organizations ranging from the World Organization of Cooperative Credit Unions to American Chambers of Commerce help us to set our agenda in emerging market economies.

Finally, and perhaps most directly, U.S. private businesses are USAID's contractors, implementors, service providers and equipment providers. Nearly 80% of all appropriated Development Assistance flows back to the U.S. More significantly, many of our private sector partners help identify opportunities in the countries where they are working and invest their own capital in small business development. There are many examples of USAID contractors pioneering innovative services in developing countries to the mutual benefit of the U.S. private sector and developing market economies around the globe. If you wish, I can provide you and your staff with specific examples and information.

If USAID is to successfully help create new and dependable markets, we must continue to harness the talents and energy of U.S. business in fostering economic growth. U.S. businesses and the standards and practices they export are critical in helping to develop and create the conditions for sustained economic growth. Our partnership with, and reliance on, U.S. business and its expertise helps spread the values of free enterprise, good corporate governance and responsible citizenry around the globe, while providing new markets for U.S. goods and services.

Question. Mr. Atwood, I appreciate the contributions of many non-government, private sector organizations which have collaborated in public-private partnerships with USAID over the years to help accomplish developmental and humanitarian objectives. These organizations are certainly a vibrant part of the Washington, D.C. beltway economy.

But I want to focus your thinking right now on the U.S. private enterprise sector. That is, those U.S. business firms whose principal reasons for existence are to manufacture things or provide goods and services to industry or the consuming public - and which are willing to invest their own resources in a development project. I'm talking about companies from Maine Street all across America than comprise the U.S. private business sector.

Tell me, what measures of success has USAID had in engaging U.S. business firms as agents for development change in developing countries and emerging democracies?

Answer. We believe that U.S. private sector companies and non-governmental organizations are critical to real developmental change. Government-to-government assistance programs are effective in beginning the change process and providing the institutional foundation for private sector activity, but sustainable programs must also be nurtured through private sector interest and involvement.

Currently, we are trying to encourage the involvement of private sector resources through several means. For example, our Office of Business Development provides business outreach, counseling and opportunity services to over 14,000 U.S. compa-

nies registered by USAID sectors of interest. In our Environmental Technology Network for Asia and the Americas (ETNA), we have over 2,000 U.S. environmental companies registered according to 485 sub-sectors within the environment area. Thus, when we receive environmental trade leads from field representatives in Asia and the Americas, we are able to make very targeted matches of U.S. firms having the appropriate technology to address the particular business or trade opportunity. We then electronically disseminate the business lead to all the matched files. This program has been active for the past four years.

We are now expanding the targeted services that we provide in the environmental sector to other USAID developmental interest areas. When we couple these services with partnering programs in developing countries, we will be able to promote precisely the kinds of long-term and sustainable relationships that will exploit the many strengths of the U.S. private sector.

Question. Mr. Atwood, I am familiar with instances in which U.S. business firms - including small, medium and large companies, from groups and cooperatives, entrepreneurs and others - have entered into joint ventures with counterpart companies in developing countries and emerging democracies. Companies from Nebraska like ConAgra and Valmont Industries and from North Carolina like House of Raeford Farms have participated in such projects in Russia and Ukraine for instance.

When a U.S., private enterprise company makes this kind of financial and operational commitment in the hopes of establishing a private, profit-making new enterprise, it can serve as a catalyst for change, growth, development and extension of democratic institutions and procedures essential for the success of the new enterprise.

When USAID uses economic assistance funds as an inducement to U.S. private enterprise in this way they leverage many things. For instance, they leverage more money. With a 2 to 1 ratio, USAID's one dollar is added to the private firm's two dollars, to create 3 dollars of economic investment where there would have been one, or none, without the private sector leveraged amount.

But perhaps more important, the USAID increment induces the U.S. firms to establish joint-ventures with an indigenous firm in the target country. That is, the USAID funds leverage the U.S. company to build economic institutions in the target country, rather than just set up shop as a U.S. company. This engages the U.S. private business sector to use its creativity to solve development problems, train people, build distribution systems, and establish real private enterprises which have long-lasting significant benefit to the people in the target company.

Do you believe there is a role for USAID to work with such private U.S. business firms to participate with joint-venture projects in developing countries and emerging democracies?

Answer. We most certainly do. Partnerships and joint-ventures can be effective wherever they are utilized, but they are particularly appropriate for those countries where USAID is scaling down or closing its operations. We believe that many of the U.S. developmental objectives can be maintained by sustainable business relationships that are targeted on those areas where we have a particular interest: agriculture, health, the environment, energy, and building democratic institutions. In this manner, USAID helps develop the institutional framework and business climate necessary for private sector activity to operate and thrive.

One such program is the Environmental Technology Network for Asia (ETNA), a successful example of how USAID can work with U.S. business firms and promote the use of U.S. private sector solutions in developing countries. In this program, USAID facilitates the transfer of U.S. technology to address development needs in the environment by matching U.S. companies registered in the ETNA database with specific international environmental opportunities.

Question. Do you believe that USAID or an aid agency can effectively use its available funds to leverage such private enterprise investments in the target countries?

Answer. We believe it is possible and we are currently doing that kind of targeting - both with regard to countries and sectors. In our U.S.-Asian Environmental Partnership (USAEP), we are working with the countries of the Association of South East Asian Nations (ASEAN), to identify and develop joint-venture opportunities for U.S. companies in the environment area. USAID's Environmental Technology Network for Asia (ETNA) then sorts these trade leads by sub-sector interest and forwards them to U.S. companies with the skills to compete effectively for the potential business opportunity. Thus, by utilizing small amounts of USAID funding, we are able to leverage large joint-venture investments that work in areas of high development interest.

Question. How do you believe that this leveraging can best work?

Answer. There are several ways to encourage this kind of leveraging. We can identify business opportunities and inform U.S. firms directly, such as we do with the Environmental Technology Networks for Asia and the Americas (ETNA). In addition, we can expand our working relationships with organizations which represent, or engage in, business development efforts for U.S. businesses, such as the Department of Commerce, the U.S. Chambers of Commerce, state development agencies, or World Trade Centers. Or, we can take a more direct approach, as we did in the Agribusiness Partnership program in the former Soviet Union. In this Program, sub-grants have been and continue to be made to U.S. businesses forming joint ventures or establishing contractual relationships with local companies on a minimum 2.5:1 leveraging ratio basis. These sub-grants, made through U.S. non-governmental organizations, cover incremental costs such as training and technical assistance.

Question. One project with which I am familiar requires that for every dollar of USAID funds made available, the private sector must provide at least $2.50 of its own at-risk resources. Is this 2.5 to 1 ratio effective in engaging the U.S. private sector as a catalyst for change in the target countries?

Answer. We believe that there should be a matching minimum or threshold where private sector funding triggers U.S. government seed funds. However, in our experience, the ratios of total economic impact to seed capital vary greatly and have been much higher than 2.5:1. The leverage ratio depends significantly on individual circumstances.

In Thailand, for example, the amounts of U.S. seed money devoted to any single private sector company were minimal, usually on the order of $10,000 or less. Some efforts we supported resulted in no deals, as the factors used to indicate probable success were not compelling. In other efforts, however, we were able to use very minimal amounts of funding to ignite private sector interests that resulted in multi-million dollar contracts.

Question. Mr. Atwood, as you know, agriculture is important to North Carolina. A considerable amount of the economic activity there -- whether it is in finance, construction, manufacturing, transportation, or research -- is linked to your agricultural economy.

This is true in much of the developing world and in the emerging democracies. The fact is most people on this planet are engaged in livelihoods involving the food and agricultural sectors.

This is true in even the developing economies and emerging democracies with the greatest amount of manufacturing industry. For instance, up to 50% of the people in Russia are involved with the food and agriculture sector, and agriculture is 60% of the GDP of Ukraine.

- Do you believe the U.S. economic development assistance programs should give greatest priority to the opportunities for growth and investment in the food and agriculture sectors where most of the people are, or not?

Answer. I believe that we need to focus greater priority on the food and agriculture sectors. Our economists, and those of the university community and other research institutions, have long been convinced that development of agriculture is the key to economic growth, especially in the poorer countries. The links between agriculture and other sectors are extensive. Growth in productivity within agriculture greatly affects productivity in other economic sectors; the reverse is not necessarily true. Recent studies, such as in Kenya in 1994, revealed that the growth multiplier for agriculture was three times the multiplier for other sectors.

A number of years ago, USAID assistance to the agricultural sector was our single largest sectoral assistance budget category. There was, however, a growing concern among many groups that we needed to do more in the social sectors, i.e. health and primary education as well as in promoting reduced population growth. Over the past few years, USAID has faithfully implemented Congressional desires to increase the relative share of social sectors in USAID funding. Because this programmatic shift has occurred at a time of overall Federal government budget stringency, many other valuable programs have suffered

Question. Explain to me what USAID is doing to strengthen private sector, free enterprise agriculture in the emerging democracies of the former communist countries where state farms and collectives were the dominant farming activities.

Answer. The problem is not just a function of state and collective farms, but of the communist top-down, production oriented, monopolistic, state agroindustrial structure. Thus, merely privatizing farms, which is a major undertaking in itself, will often not suffice. In many cases, farmers are still dependent on the vestiges of the state structure for inputs, credit, and marketing of produce. The challenge, therefore, is to privatize farming at the same time that alternatives are created for

the supply of production inputs and the storage, shipping, processing and marketing of products.

In line with this, there are many things which USAID is doing with some degree of success:

- support for the privatization and restructuring of farms, combined with necessary land titling, survey and registration (Albania, Moldova, Ukraine, Russia);
- development of private, alternative sources of agricultural and small business finance (Poland Cooperative Banks, Macedonia village-based savings and credit societies, private farm finance company in Ukraine);
- development of alternative distribution systems for farm produce (Ukraine)
- promotion of agribusiness joint trade and/or investment ventures between U.S. and local enterprises, as a means of both demonstrating and disseminating new technologies and opening or expanding U.S. markets (Ukraine, Georgia, Hungary, Poland);
- development of professional and trade associations that can both represent and provide services to members (e.g., agricultural input dealers in Albania, dairy processors in Bulgaria, millers and meat processors in Romania, farmers' union in Georgia).

Question. How can the U.S. private sector best be engaged to serve as a catalyst for change from the communist systems to private enterprise agriculture?

Answer. USAID has a unique and proven capability to provide technical assistance to develop transparent and fair enabling environments in developing countries. Examples include tax, financial and regulatory reform and improved and uniform implementation of the rules and regulations necessary for the conducting of business. Businesses naturally shun arbitrary and unpredictable commercial environments, and this is probably the major impediment that we are addressing at present.

Other examples of our assistance include: (1) the — promotion of joint sharing of information; (2) incentives for U.S. agribusiness to provide technical assistance; and (3) agribusiness ventures, with closely-associated policy and financial sector reforms (One example of the later is the agribusiness partnership program in the Ukraine). What is important to remember is that USAID brings concrete technical assistance to the table in response to the needs of local entrepreneurs.

Question. What percentage of the USAID economic assistance budget is specifically allocated for agricultural development programs?

Answer. USAID funding for agriculture programs has dropped from $802 million in 1990 to $308 million (estimated) in 1996. In addition there are a number of agriculture-related activities being funded in other sectors such as environment, which would bring the 1996 total funding to $433 million.

Question. Mr. Atwood, are you familiar with the recent 4-part series in the Washington Post which detailed instance after instance in which the world's poorest people are being advantaged by new foreign business investments in their countries?

The Post writers have emphasized the importance of private business investments in bringing millions of people in developing economies out of abject poverty, but they also emphasize the remaining large numbers of poor people who are "left behind." Despite this somewhat negative "the glass is only half-full" bias, the Post articles are a powerful lesson for us.

One of the attractive aspects of the kinds of programs USAID can use to leverage U.S. private sector investments is to create lasting, self-sustaining joint ventures with indigenous enterprises in the target countries. This leveraged, joint-venture approach will overcome some of the "left behind" problems which worry the Post and will build business and democratic institutions in the target countries.

Please give me your assessment of the impact of the Post series on your thinking (and if you are not familiar with the series, you may review the copy provided).

Answer. Senator Helms, I found the series in the Post as interesting as you, and was pleased that it paralleled much of my own thinking on the subject.

Although USAID has largely focused on government-to-government assistance, we are finding that interventions made through the private sector, in many cases, have a lasting and profound impact. One particularly compelling example is the partnership agreements we launched in Thailand prior to closing the mission. These agreements utilized $20 million in U.S., Government of Thailand, and private sector funding to stimulate $600 million in U.S.-Thai business partnerships focused on the health and environmental sectors.

In light of that success, we are exploring additional private sector partnering initiatives which would join U.S. companies with entrepreneurs in other USAID recipient countries. By focusing on USAID sectoral interests, we believe we can move our

developmental objectives forward while, at the same time, building sustainable mechanisms for long-term change.

RESPONSES OF MR. ATWOOD TO QUESTIONS ASKED BY SENATOR HELMS AND SENATOR BROWNBACK

Question. Mr. Atwood, let me ask you about microenterprise programs and USAID's commitment to fund these programs in Fiscal Year 1998.

USAID's Distribution of resources for microenterprise appears to be somewhat out of balance. For example, I know that USAID has attempted to make significant strides in support of microenterprise and other poverty lending programs in Latin America and in Asia. But is appears that USAID has devoted less attention to these types of programs in Africa.

What percent of USAID's microenterprise activities are expected to occur in Africa in Fiscal Year 1998?

Answer. For Fiscal Year 1998, USAID expects that nearly one fourth of its microenterprise funding will support programs in Africa. This is in keeping with past trends in regional allocation of microenterprise funding, which have always included substantial activities in Africa.

Question. Given the enormous problems that face African nations - poverty, disease, lack of adequate education, and others - in which countries in Africa are the conditions right for increased resources for microenterprise?

Answer. The conditions under which it is suitable to fund microenterprise programs exist now in many countries in Africa. Certainly, there is a great need to develop financial services that reach the vast informal sectors in most African nations. The major exceptions are those countries currently undergoing serious political or economic instability, where microfinance programs are unable to work. In countries where a reasonable degree of stability exists, including countries solidly into a post-conflict period (e.g., Mozambique), the ability to increase funding for microenterprise is determined mainly by the level of institutional capacity among microfinance organizations. Many African countries have few microfinance organizations. In those countries, USAID supports strengthening of nascent organizations, as well as start-up of new ones. For these situations, of course, the absorptive capacity of these fledgling organizations tends to limit the amount of funding they can effectively use.

Question. Mr. Atwood, according to RESULTS, a grass roots organization which supports microenterprise lending, A.I.D. in FY 1995 committed $140 million to micro-lending activities. Yet in FY 96 and FY 97, A.I.D. reduced its support by $20 million. I understand that for FY 98 the President is proposing about $120 million for these activities. I recognize that A.I.D.'s overall budget has been reduced -- I have supported those cuts -- but why has A.I.D. chosen to reduce funding to microenterprise when it has proven to be a program under your jurisdiction for which there is bipartisan support?

Answer. As you indicate, the overall budget for USAID was reduced considerably in FY 1996 and FY 1997 from the level provided in FY 1995. The Development Assistance (DA) program -- which provides half the microenterprise funding -- was especially hard hit, having been cut by more than 20 percent in FY 1996 from the FY 1995 level. There was no restoration of those DA cuts in FY 1997 and the FY 1998 DA request proposes only a slight increase (about 4 percent) above the FY 1997 appropriation

Under those circumstances, it simply was not possible for us to continue to fund microenterprise activities at the level provided in FY 1995, even though I agree that microenterprise programs are effective and enjoy broad support -- including within the Administration. Nevertheless, FY 1998 microenterprise funding remains at roughly the same proportion of the total budget as in FY 1995 -- still a little over 2 percent -- and it is possible that, if we gain Congressional approval for the flexibility to budget our funds as we have proposed, we ultimately may be able to do a bit more than the $120 million planned.

Question. Mr. Atwood, in 1994, your agency launched a new Microenterprise Initiative which set a goal to assure that by the end of 1996 half of all funds committed by USAID for microenterprise would be supporting programs that make loans of $300 or less. I understand that today about one-third of USAID's program is devoted to those most in need.

Do you still believe the goal of ensuring that half of all resources for microenterprise are dedicated to loans of $300 or less?

Answer. USAID has just renewed its microenterprise initiative for two more years. We have pledged to devote half of all microcredit funding to poverty lending, defined as loans below $300.

Question. Could you update the Committee as to how USAID is working to achieve that?

Answer. Our centrally-funded microenterprise programs are strongly focused on poverty lending, with two-thirds of their funding supporting such activities:

- The Microenterprise Implementation Grant Program has awarded $30 million to 17 US PVOs and international organizations, expected to be serving over 400,000 clients by the end of the grants.
- The Prime Fund provided $17 million to USAID missions in 20 countries for institution-building, promoting an enabling environment for microfinance, and providing credit and savings services to over 300,000 clients.
- The Matching Grant and Cooperative Development Programs have provided $25 million to 16 US PVOs and Cooperative Development Organizations for microenterprise development in 29 countries.

In addition, missions also manage substantial poverty-lending programs, including missions in Mali, Uganda, Nepal, El Salvador, Honduras, and others.

RESPONSES OF MR. ATWOOD TO QUESTIONS ASKED BY SENATOR FEINGOLD

*Question.*The President's FY 1998 budget for the U.S. Agency for International Development includes $700 million in a separate account for the Development Fund for Africa. Please highlight the major program initiatives to be included in this account. Is this a priority for the Administration?

Answer. The Administration is requesting reinstatement of a separate Development Fund for Africa (DFA) appropriation to underscore the United States' commitment to tackling Africa's complex development challenges. Though modest in scope, the resources requested for the DFA are a sound and critical investment for improving millions of lives in sub-Saharan Africa and will enable the United States to meet the challenges and opportunities for sustainable development in that region.

As with the Sustainable Development Assistance (DA) account, DFA programming incorporates the four Agency goals of promoting broad-based and sustainable economic growth; stabilization of population growth rates and protecting human health; protection of the environment; and increased democratic participation in open governments. These DFA resources are concentrated in those countries which are committed to sound economic policies and democratic governance. USAID is also making investments which reduce the likelihood of costly future humanitarian and disaster relief requirements and foster growing new markets for American trade and investment. Our efforts to promote market-based economic policies and stimulate economic growth in Africa also helps fuel demand for U.S. goods and services from these countries.

Three major initiatives for which we have requested funding under the FY 1998 DFA appropriation demonstrate the diversity of response needed to address the complex development challenges in Africa:

Continued funding is requested for the Greater Horn of Africa Initiative (GHAI). Nowhere do crises threaten to overwhelm the international community as in the Greater Horn of Africa (GHA). And nowhere is the United States Government attempting to deal with causes rather than symptoms as in the GHA. Under GHAI, the U.S. Government is striving to make its development and crisis prevention work in the region conform to five operating principles: (1) African ownership of the approaches we implement in partnership with them (2) strategic coordination across bureaucratic boundaries; (3) linkage of relief programs with development programs; (4) regional approaches to regional problems; and (5) promotion of stability through change. The aim of GHAI is very ambitious: to change the way the U.S. Government operates in the region, as well as the way our partners operate. In Africa, the new approaches of GHAI are indeed producing results.

Our approach for helping the southern African region to achieve equitable, sustainable economic growth and successful democracies is embodied in the Initiative for Southern Africa (15A). The 15A complements bilateral programs in the region with programs that address development constraints needing a coordinated regionwide response or which help to build links among countries in support of regional economic growth and democratic governance objectives. The 15A focuses in particular on addressing regional constraints to development in the areas of infrastructure, small and medium-scale business development, civic society and democratic govern-

ance, and agriculture and natural resource management. The members of the Southern Africa Development Community are anxious to expand trade, and the USAID Regional Center for Southern Africa located in Gaborone, Botswana is strategically placed to foster more and closer links between the countries in the region and the United States. In particular, through 15A regional funding, USAID's investments in rail and road infrastructure over the past decade, and current support for privatization and restructuring of telecommunications and railroads, are putting in place the key arteries along which trade and information critical to private sector development will flow.

Finally, we have proposed a significant new initiative for FY 1998, the Africa Food Security Initiative (FSI). Recognizing the increasing threat to food security in the region posed by trends in agricultural production and population growth, the FSI will underscore policy, technology and infrastructure constraints to enhancing food production and marketing. Specifically, FSI will focus directly on enhancing Africa regional food security by addressing (1) major bottlenecks in agricultural policies, technology and rural infrastructure in several key African countries to support rural growth; (2) the need for tighter linkage between food aid and development assistance resources; and (3) the linkages between better nutrition and agricultural growth.

Question. The budget also assumes a new, $30 million initiative related to food security in Africa. What types of activities will be included in this initiative? How are these activities related to the commitments made by the United States at the 1996 World Food Summit in Rome?

Answer. The $30 million budgeted in FY 1998 is the first pilot year of a ten year activity to stem the erosion in food security in Africa. It will provide supplemental resources to address a growing food and poverty crisis in Africa which, if unchecked, could require emergency response costs of an additional $900 million per year beginning eight years from today. By addressing food security and poverty more broadly today, and preventing growing problems in the future, hungry children will be better nourished, enhanced food security will help to avert costly crises like Rwanda and Somalia, and the U.S. economy will directly benefit.

The food security initiative will supplement ongoing USAID programs in five African countries, where policies are already conducive to food security, in the first pilot year. In Uganda and Mozambique it will work with PVOs and the private sector to improve access to food, agricultural markets, and processing technologies. In Malawi, Mozambique, Mali, Uganda and Ethiopia, and through a range of regional and global activities, it will support an environment of improved policy and information to promote agricultural growth and food security. In Malawi, Mozambique, Uganda, Ethiopia, and through support to African regional institutions, U.S. universities, and the International Agricultural Research System, it will support the access of rural people to better technologies to improve agricultural production and food security.

The goal of the Food Security Initiative is to stem the tide of growing food insecurity in Africa by building on and making more sustainable the policies and technology generation of those several African countries that have started moving in the right direction, and by expanding those trends to other countries during the next decade. The Food Security Initiative aims to reduce what will otherwise be an explosive growth in malnutrition. In this goal, it is right in line with U.S. commitments, along with much of the rest of the world, at the World Food Summit to reduce the number of malnourished people in the world by half by the year 2015. The specific undertakings of the World Food Summit are entirely consistent with the focus of the Food Security Initiative on technologies, policies, and infrastructure to promote food security and reduce malnutrition among the world's poorest people. Recent research shows that half of all childhood deaths in the developing world are attributable to malnutrition, so the goal of the World Food Summit and the Food Security Initiative to reduce malnutrition will have a direct impact in reducing childhood death and promoting child survival.

Specifically, three of the USG commitments along with the rest of the world at the World Food Summit are particularly a part of the Food Security Initiative. These are:

- Sharing U.S. expertise with selected countries wishing to review and change national policies affecting food security
- Enhancing U.S. government support for research and technology development in agriculture and related sectors, at home and abroad

Continuing to support food security through agricultural programs, development assistance and food aid in an integrated approach, with strong emphasis on those countries showing good faith willingness to adopt necessary policy reform.

Question. In addition to the food security initiative, what else is the U.S. Agency for International Development doing to honor U.S. commitments at the Food Summit? What is the status of the inter-agency working group on food security?

Answer. The USAID follow-up to the World Food Summit is being pursued aggressively on four fronts: 1) inter-agency collaboration on a U.S. government-wide action plan; 2) outreach to the U.S. public and key agricultural groups; 3) donor coordination and collaboration; and 4) a new budgetary balance struck within the context of very limited budgetary flexibility.

There is a growing awareness within the Executive Branch, and across the country -- for example, as in the National Center for Food and Agriculture Policy's report: "U.S. Interests in Economic Growth, Trade, and Stability in the Developing World" -- that international food security is one of the critical strategic issues facing the U.S. today. We, therefore, take the U.S. commitments very seriously, and are looking at a range of ways in which USAID can contribute to the action plan. Among our first steps will be to propose to Congress a restructuring of the Board on International Food and Agricultural Development (BIFAD) with representatives from a wider range of domestic constituencies so that it can advise appropriate agencies on the full range of food security issues.

In addition to the Africa Food Security Initiative, we have begun to increase our investments in agricultural research and are looking at ways to engage the private sector more broadly in international development work. In addition, we are giving food security top priority in our dialogue with other donors, including in the Common Agenda with Japan, and the Trans-Atlantic Agenda fora.

Finally, through the Inter-agency Working Group (IWG) context, we have begun a dialogue with various groups, such as the PVO community, the private sector, and foundations regarding the Action Plan. This dialogue also seeks to build awareness of U.S. strategic interests in international food security.

The IWG on Food Security continues to work actively in support of the U.S. follow-up to the World Food Summit. Based on its productivity and success leading up to the Summit, the IWG members voted immediately after the Summit to continue its operations. As a result, the IWG continues its tri-partite leadership of Under Secretary of State Wirth, the Under Secretary of Agriculture, and myself. The staff-level committees have been expanded, now encompassing two sub-committees - one with a domestic focus (chaired jointly by Department of Agriculture and Health and Human Services), and one with an international focus (chaired by State, with technical staff support from USAID). As a symbol of the IWG's importance, it is worth pointing out that the Department of State has created a new senior position, Special Representative for Food Security, to act as chair of the international sub-committee.

Question. The budget request also assumes an increase from $123 million to $135 million in the democracy and governance account. Please highlight the major components assumed in this increase. What is the difference between these programs and the democracy programs carried out through the Department of States's budget?

Answer. USAID's work in democracy and governance advances U.S. foreign policy interests as well as contributing to USAID's overall development objectives. Democracy and governance assistance is an essential part of sustainable development because it facilitates the protection of human rights, informed participation, and government accountability. The development work USAID undertakes in other sectors will not be sustained without simultaneously working to establish a representative political system, which is accountable to and allows the active participation of its citizens in decision-making.

In recent years, including in FY 1998, USAID has allocated approximately 8 percent of its overall development assistance budget to democracy and governance programs. Working with U.S. non-governmental organizations and other USG agencies in particular, the Agency provides grants and technical assistance to meet critical needs in four main areas: elections, rule of law and human rights, civil society and governance. The requested level of development assistance provides for relatively greater allocations to Asia and Latin America over what was allocated in FY 1997. Of the total request, the proposed regional allocation is follows: $64.2 million to Africa; $22.7 million to Asia and Near East; and, $33.3 million to Latin America. The remaining balance of $15.3 million is requested for centrally managed programs.

USAID's approach to promoting democracy abroad occurs within the context of stated U.S. foreign policy objectives and the development priorities of the specific country situation. USAID coordinates closely with the Department of State in undertaking democracy assistance initiatives, especially at the country level, where the U.S. Ambassador takes an active role. The State Department has an important role to play in promoting democracy through its diplomatic efforts. When funds are appropriated through the Support for Eastern European Democracy (SEED) Act, the Freedom Support Act and Economic Support Funds, the Department of State as-

sumes a more active decision-making role in setting country funding levels, in close collaboration with USAID. USAID is responsible for management and technical oversight of agreed to activities funded by those accounts.

RESPONSES OF MR. ATWOOD TO QUESTIONS ASKED BY SENATOR BIDEN

Question. Enhanced Credit Authority: The Congressional Presentation states that the $10 million in authority sought for the enhanced credit would leverage approximately $67 million in loans and guarantees. You stated, during the hearing, the expectation that it could leverage up to $100 million in loans.

- Which figure is the correct one?

Answer. Ultimately, the leverage achieved under the Enhanced Credit Authority (ECA) will depend on the factors relating to a particular transaction: e.g., country risk, the sector involved, and the experience and sophistication of the borrowers. Generally, we have been using a conservative average subsidy rate of 15% to project the leverage ratio for projects financed under the ECA initiative. These figures reflect the assumption that we will do a blend of high-risk, medium-risk, and lower-risk project financing under ECA. Using a $10 million of credit subsidy as an example, this would translate into approximately $67 million in loans and guarantees. However, under both the Agency's Micro and Small Enterprise Development (MSED) Program and its Housing Guarantee (HG) program, recent experience has demonstrated consistent leverage ratios of at least $17 of loans or guarantees for every $1 spent for subsidy. Accordingly, I believe that it is realistic to think that we can leverage $10 million of subsidy into $100 million in capital for many ECA-funded projects. In no event, however, will ECA be used to fund projects where the credit subsidy would exceed 30% of the transaction amount.

Question. Enhanced Credit Authority: The Congressional Presentation further states that the OMB approved the request for this authority contingent on USAID "improving the management of its current credit programs."

- Please elaborate. What steps are being taken to improve the management of the current credit programs? Will OMB again have to approve the program, once USAID meets the objective of improving management of its loan portfolio?

Answer. The Agency has recently developed an action plan to strengthen the way USAID manages its credit programs. This credit management action plan, which has just been approved and is now being implemented, addresses the seven areas for improvement for each of the Agency's current credit programs, including the Direct Loan portfolio, the Urban and Environment Credit (formerly Housing Guarantee) Program portfolio, the Israel Special Loan Program portfolio, the Micro and Small Enterprise Development Program portfolio and the Ukraine Export Credit Facility portfolio, as well as for the Enhanced Credit Authority initiative.

These seven areas targeted by the action plan include: (a) ensuring accurate and timely provision of loan data; (b) establishing information control systems for loan data; (c) reassessing staffing needs; (d) improving budgeting for credit programs; (e) reviewing and monitoring USAID's entire loan portfolio; (f) developing financial performance indicators; and (g) making the USAID Credit Review Board an active, functioning group. USAID would begin implementing the requested ECA transfer authorities when the action plan is substantially implemented.

Question. Enhanced Credit Authority: The Congressional Presentation states that the Enhanced Credit Authority will only provide financing "where other funding is not available."

- Does this mean that ECA will be used only if there are no other U.S. governmental resources available to fund the proposed project? Or does the term "other funding" encompass all sources of funding, public or private? In other words, is the ECA to be the "lender of last resort"?

Answer. Other funding means all sources of funding, public or private. That USAID will only be the "lender of last resort" is a fundamental part of the criteria that we will apply in determining whether ECA is the appropriate means of funding a development activity. Under those criteria, USAID will require proof that a proposed project is unable to receive credit from private sources. In making this determination, USAID will examine all other potential sources of financing, including regional and multilateral donors, as well as reasonably ascertainable commercial sources of financing.

For example, as part of the formal approval process for ECA-funded transactions, the final submission to the USAID Credit Board will have to specifically identify:

(i) the commercial and multilateral institutions surveyed, (ii) the financing available from these sources, if any, and (iii) the need for USAID financing. Review and approval of such a submission will be a prerequisite to approval of any ECA-funded project.

Question. Please provide a list of the missions you have closed since 1992, and the posts that you plan to close in FY 1997 and FY 1998. What criteria do you use in making decisions to close missions.

Answer. USAID had U.S. direct-hire staff in 93 countries in 1993. At the end of 1996 there were U.S. direct-hire staff in 73 countries, not including countries with staff for the purpose of donor coordination (e.g., Paris) and where the Inspector General has staff. In 1993, the Agency announced twenty-one mission close-outs. Since then, six new country programs, e.g., Bosnia, West Bank/Gaza, and Eritrea, have begun. Subsequently the decision was made to close additional missions. As a result twenty-six posts have been closed; including:

FY 1994

Afghanistan
Cote d'Ivoire
South Pacific Regional
Togo
Zaire

FY 1995

Argentina
Botswana
Burkina Faso
Cameroon
Chad
Lesotho
Pakistan
Thailand
Tunisia
Uruguay

FY 1996

Barbados (RDO/Caribbean)
Belize
Cape Verde
Chile
Costa Rica
Estonia
The Gambia
Oman
Swaziland
Thailand Regional Support Mission
Yemen

In FY 1997 USAID has firm plans to close the Czech Republic and Slovenia. The planned FY 1998 close-outs cannot be publicly announced at this time; however, depending on the outcome of the appropriations process, USAID now plans to close about three additional posts.

In FY 1996 USAID was faced with additional budget cuts and therefore had to consider additional downsizing and close-outs. In making the difficult decision concerning which country programs to reduce, close or graduate, USAID considered four criteria:

- Need and Level of Development - this was assessed based on an index that considered standard indicators such as per capita income measured in purchasing power terms, infant mortality, and fertility.
- Global Problems - the importance of a country in addressing global issues such as population growth, AIDS, climate change, bio-diversity and democracy was assessed and key countries were identified.
- Quality of Partnership, Commitment and Performance - while a much more subjective criterion, the current list of USAID countries was reviewed to assure that countries were making a best effort to help themselves.
- Foreign Policy - this factor sometimes becomes an over-arching consideration if, for example, the country might otherwise be ranked low in need relative to others.

Population was not directly factored into these analyses. If, however a country had a population of less than five million but ranked high based on need, careful consideration was given to whether the impact of U.S. assistance was of a magnitude to warrant continuation of a program.

The result of these analyses informed the Administrator's decisions concerning the proposed near-term closure of additional missions between FY 1996 and 1998, the establishment of a "graduation-track" for eight countries beginning in 1999 and continuing through 2005, and the down-sizing and narrowing of the program in another six countries. These figures do not include the planned close-outs in the ENI countries; however overall the Agency has scheduled graduation planning dates for about 25 countries over the next decade.

Question. Partnership for Freedom. The CPD talks in general terms about "partnerships, exchanges, joint ventures, endowments, and cooperative projects" as part of the Partnership for Freedom.

- What sort of projects and partnerships are envisioned?
- What will be the focus of these efforts - in terms of your four strategic objectives?
- Which department will manage the program?

Answer. We envision a variety of implementation mechanisms in support of our strategic objectives under the Partnership For Freedom (PFF). The mix will continue to include technical assistance, training, exchanges, NGO support grants, partnerships, etc. But under the PFF that mix will shift, particularly for the countries like Russia that have come the furthest in restructuring their economies, to reduce significantly the proportion of technical assistance and increase the proportion of supporting institutional and community-based partnerships.

We foresee a wide range of potential partnerships between organizations in the NIS and their counterparts in the United States, all of which would act as conduits for knowledge, improved policies, management practices, and technologies, while developing lasting relationships between our societies. While the kinds of partnerships need to be tailored to the situation in each NIS country, some examples might include:

- a partnership between counterpart tax authorities in the U.S. and the NIS;
- partnerships between U.S. state bar associations and professional legal associations in the NIS;
- partnerships between condominium associations;
- partnerships between American and NIS professional associations, like associations of accountants or journalists or medical associations;
- partnerships between power utilities in the U.S. and the NIS;
- university or hospital partnerships;
- agribusiness partnerships;
- a partnership between a U.S. stock exchange and NIS exchange;
- partnerships between mayor's associations or associations of municipalities.

The PFF will have a heavy emphasis on economic growth and building democratic civil societies, hence there will be a close link between partnerships and our strategic areas of emphasis, which include economic growth and transition, democracy building, and social transformation.

Under the Partnership for Freedom, the role of the NIS Coordinator will remain the same: the establishment of strategic priorities and resource allocation among NIS recipient countries and among USG implementing agencies. A number of USG agencies will continue to implement the program, and USAID will continue to manage the single largest share.

Question. Aid to Central Europe and Russia and the NIS. Estonia has already "graduated" from our assistance programs, and the Czech Republic and Slovenia will do so in FY 97.

- Do you have a projected timeline on when other nations of the region will graduate?

Answer. We plan to end assistance as soon as each country has achieved enough momentum in its economic and political transition from communism to market-based democracy to complete that process without further help from the United States. Last year, as you note, USAID graduated Estonia from SEED Act assistance. This year, we expect to graduate the Czech Republic and Slovenia, both of which have completed the most important parts of their transitions and are now able to compete in Western markets and guarantee democratic participation to their citizens.

Over the next three years, we hope to end our assistance in Hungary, Latvia, Poland, Slovakia and perhaps Lithuania (if progress there continues as anticipated).

The southern tier of Central Europe has further to go, probably until the early years of the next decade.

In the New Independent States of the former Soviet Union, our close-out plans are less definite. As a region, the NIS has further to go than Central Europe. While Russia may be ready for graduation early in the next decade, in most of the NIS we have to be willing to stay the course a little longer -- perhaps another decade -- before these countries have restructured their economies, developed democratic institutions, and oriented their business, political, and cultural ties more toward the West.

However, in the NIS we are transitioning to a second phase of assistance, the Partnership for Freedom, which will focus on economic growth, trade and investment, and partnerships to sustain the economic and democratic institutions which are developing across the region. As the Partnership for Freedom progresses, many of the earlier technical assistance efforts will phase out in favor of these new mechanisms.

May 12, 1997

TO: Betty Alonso
Committee on Foreign Relations
Room SD 450, Dirksen Building
Washington, D.C. 20510

FM: Veronica T. Young
Bureau for Legislative and Public Affairs
U.S. Agency for International Development
Washington, D.C. 20523-0016

SUBJECT: USAID BUDGET REQUEST AND OVERSIGHT

Attached as promised, is the response to Senator Biden's question to USAID Administrator J. Brian Atwood on Congressional Notifications from the SFRC hearing of February 26, 1997.

If you have any questions or if I can be of further assistance, please feel free to call me on 202-647-9144. Thank you.

Attachments: a/s

RESPONSES OF MR. ATWOOD TO QUESTION ASKED BY SENATOR BIDEN

CONGRESSIONAL NOTIFICATIONS

Question. There is a barrage of paper that is submitted to the committee in the notification process. I don't have any specific thoughts today on how to reduce the paperwork here, but I suspect you've thought about it, and I'd like to get your input on two issues.

- First, how many man hours do you estimate you expend on the notification process? In other words, could we achieve a meaningful reduction in your operating expenses if we streamlined the process?
- Second, do you have any specific ideas on streamlining the process?

Answer. Two years ago, the Agency shifted its program management from a project/input focus to a strategic objective/results emphasis, both to better manage its programs and to comply with the Government Performance and Results Act. Concurrently, the Agency began to present its budget by strategic objectives and results. However, we have been unable to convince our oversight committees to permit the Agency to shift its notification on Agency programs from a project basis to one of strategic objectives. If the Agency and the Congress could reach agreement on this change, the Agency's annual congressional presentation document would serve as the primary notification for all programs. This would greatly reduce the number of separate notifications (approximately 900 in FY 1996) submitted to the Congress throughout the year.

While this streamlined procedure would save staff time, it would be difficult to estimate the cost savings because the preparation of both the congressional presentation and notifications are an integral part of the Agency's program process both in Washington and in our overseas missions.

APPENDIX 2

HEARING OF FEBRUARY 27, 1997

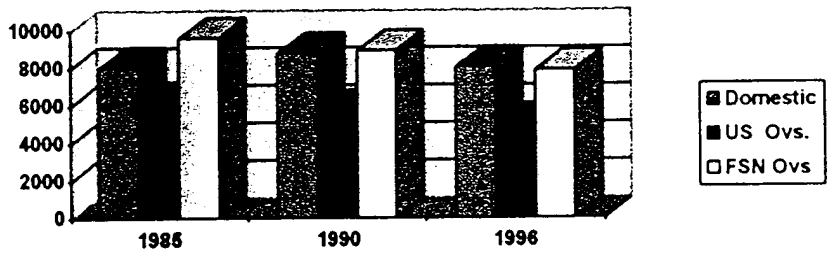
RESPONSES OF MR. KENNEDY TO QUESTIONS ASKED BY SENATOR LUGAR

Question. 1. Personnel in the U. S. and Abroad. The size of the State Department, measured in number of personnel, has declined in recent years suggesting that our diplomatic representation has declined along with that.

- Could you provide details on the proportion of State Department personnel—Foreign Service and others—who serve in the United States, in Washington and elsewhere, relative to those who serve overseas?
- How does this profile compare to those over the past ten years, say in 1985 and 1990? Please provide some explanatory information for this pattern.

Answer. Personnel Profile:

Personnel	September 1985		September 1990		September 1996	
	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas
Americans	8,057	6,186	8,796	5,729	8,055	5,027
Foreign Nationals		9,605		8,933		7,889
Sub-Totals	8,057	15,791	8,796	14,662	8,055	12,916
Totals		23,848		23,458		20,971



As shown above, the Department's domestic workforce increased from 1985 to 1990 and decreased back to the 1985 level from 1990 to 1996. The increase was largely due to the build-up under the Inman Appropriations in the 1980's and the decrease since 1990 is due to cutbacks mandated by the administration.

Question 2. U.S. Diplomatic Missions Abroad. For many years, the United States has followed the principle of universality in having U.S. diplomatic missions in virtually every country with which we have formal relations. This may be a laudable principle and worth preserving.

- What is the practice today? How close does the United States come to this principle of having at least one diplomatic post, embassy, consulate or other diplomatic post, in all countries with whom we-have formal ties?
- Is it desirable and/or feasible to consider U.S. regional missions in which U.S. facilities and personnel would be located in one country but representing U.S. interests in several countries?
- What are the trade-offs involved?

Answer. With the exception of a few small island states (in Micronesia and the Caribbean, and off the coast of Africa), the United States currently follows the principle of universality by having a diplomatic mission in every country with which we have diplomatic relations. Even with modern communications, there is no effective substitute for having a physical presence throughout the world. We still need em-

bassies and consulates to assist American citizens, support U.S. business, and develop the extensive local contacts that are essential to effective diplomacy.

That said, modern communications do allow us to work more efficiently. We have established a number of small posts in places where we do not require a large, full-service embassy. Restructuring our overseas presence to accomplish our goals through "regional" embassies of the type described in the question would undoubtedly produce some savings. We doubt, however, if those savings would be worth the loss of our ability to assist American citizens in a prompt, effective manner, or the loss of our ability to support U.S. business in its efforts to penetrate new markets.

There could also be negative political repercussions to closing down embassies in countries where we have a long history of productive, friendly relations. If we have never had an embassy in a given country, we still have an option of being represented there through an embassy in a nearby country. Closing embassies could also call into question America's leadership role in the post Cold War era by signaling a retreat from global engagement.

Question 3. Fee Authority Request. You are requesting permanent and unlimited authority to collect certain user fees to pay for the cost of State Department operations. I understand the logic of this request. I wonder, however, if it makes good sense to request a permanent authorization and an authorization that permits the use of these fees for a variety of purposes.

- If you had unlimited and permanent authority, how would Congressional oversight operate under such an authority?
- Would it not be better to preserve existing authorities in the executive and legislative branches by limiting this authority for a specific time period—say 2-4 years—and to limit the use of those revenues to the same function for which they were collected, e.g. passport fees for the conduct of consular operations.

Answer. Congressional oversight of the requested fee authority would remain unchanged from current oversight of the Department of State. The Department would continue to be subject to biennial authorization acts by the Congress which would address the full range of authorities under which the Department operates. Making the fee authorities unlimited and permanent rather than for a limited purpose and for a limited time period serves both the executive and legislative branches. The Department conducts consular (e.g., passport, visa and American citizen services) services on a permanent, on-going, day-to-day basis. Accordingly, it makes sense that the authorities to collect and retain the fees charged for providing these services not be limited by time period or subject to potential lapses in authorization. The Department applies its worldwide facilities, infrastructure and support network to carry out consular activities both domestically and at overseas missions. In addition to the direct cost of providing consular services, the cost of the worldwide support structure attributable to consular services is embedded within the fees the Department charges. Accordingly, it makes sense that user fees the Department collects can be applied to the entire range of Department operations that support consular services.

Disposal of U.S. Real Properties Overseas

Question. The United States owns or leases extensive properties overseas for the conduct of our foreign relations. Could you describe for the committee the extent of this ownership, how these properties are being utilized, how they are determined to be surplus or excess, and, more specifically, the process by which the Department disposes or sells U.S. owned properties abroad?

Answer. The U.S. Department of State manages over 13,000 properties worldwide in support of over 250 American diplomatic missions in 164 countries. These properties include single family residences, apartments, office buildings; support facilities such as warehouses, maintenance shops, and power plants; and building sites acquired for future construction.

The Department's Office of Foreign Buildings Operations in the Bureau of Administration manages this portfolio of approximately 13,100 properties which includes 1,100 office buildings, 10,500 residential properties, 1,500 functional and support properties, and parcels of land (mostly lots on which our facilities are built and some which were acquired for future construction). Approximately 3,000 of these properties are owned, and the rest are leased. Properties are identified for disposal through an on-going review of our real property needs world-wide. With an inventory of properties this large and dispersed, many in unstable areas of the world, the Department must continually review its inventory to evaluate which properties are too big, too small, or no longer needed, no longer provide an adequate level of security or are too expensive to maintain, etc. The Department has identified over 100 properties worldwide that are candidates for disposal, and we are seeking to sell

these properties in such a way as to derive the maximum benefit to the U.S. Government In today's budget climate, it is essential that we have an aggressive program in place to identify and sell real estate and use the proceeds for other high priority property needs. As recommended by the Congress, the Department has also established a Real Property Advisory Board to assist in evaluating properties for disposal. Properties to be sold are typically improved properties, but also include vacant land and properties that clearly may have commercial or other development potential.

The Foreign Service Buildings Act of 1926, as amended, provides the Secretary of State with authority to use proceeds from real property disposals for acquisition of facilities. We intend to use the proceeds derived from such actions to purchase additional property to reduce the increasing cost of leaseholds worldwide and to replace existing facilities which are beyond their useful life or no longer serve the needs of the diplomatic mission.

Numerous methods of disposal are available to the Department as a result of its authority granted by the Foreign Service Buildings Act of 1926 as amended. These include: general solicitation of offers; public offerings; private negotiations; marketing via professional real estate brokers; exchanges; or outleasing.

Local market conditions, the level of local market sophistication, personnel resources available at post, and transaction complexity all must be considered in making the decision to pursue a strategy for disposal.

Recommendations regarding property disposals are made by the Real Estate Division of the Office of Foreign Buildings Operations, with final decisions regarding disposal made by the Deputy Assistant Secretary for Foreign Buildings, or by higher authorities within the Department

The Administrative Officer and/or the General Services Officer located at the post nearest the subject property typically handles day-to-day implementation of the disposal process with support from the Real Estate Division.

In the last two fiscal years, the Department has disposed of 60 properties worth over $53 million.

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Proceeds of Sale of U.S. Real Properties Overseas

Question. Over the past years, what have been the proceeds or cash receipts realized from these sales and could you provide a broad description as to how these proceeds have been used, the authorities for the sale of these properties, and how the cash receipts from these sales are managed?

Answer. Between FY 1992 and FY 1996, the Department's asset management program was credited with $159 million in proceeds of which $145.5 million have been obligated toward the acquisition of more secure, safe or suitable properties. The table below shows the proceeds credited to the Security and Maintenance of U.S. Missions appropriation since fiscal year 1992 and the amounts that have been obligated far real property purchases. By and large, these funds have been used to acquire staff residences in high cost posts. Such purchases offer an attractive internal rate of return and help the Department to minimize increases in its leasehold program which now claims over 30 percent of the annual appropriation for the Security and Maintenance of U.S. Missions account.

Authority to sell property acquired for use of the diplomatic and consular establishments in foreign countries is provided for in Section 9 of the Foreign Service Buildings Act of 1926, as amended.

Proceds of sale credited to the Security and Maintenance of U.S. Missions appropriation are managed in the Real Property Acquisition program. As proceeds become available they are applied to priority real property acquisitions that offer attractive internal rates of return.

Foreign currencies received for disposal of real property are not immediately available for obligation. Funds cannot be credited to the Security and Maintenance of U.S. Missions Appropriation until the currencies are disbursed by the Treasury to pay the operating costs of overseas diplomatic missions or are exchanged for U.S. currency. Subsequent to these transactions, proceeds are apportioned to the Department by OMB and allotted to FBO by the Chief Financial Officer. The chart below indicates the proceeds which have been made available between FY 1992 and FY 1996.

Proceeds of Sale Credited to the Security and Maintenance of U.S. Missions Appropriation and Amounts Obligated for Real Property Acquisitions (in thousands of dollars)

Fiscal Year	Proceeds Credited	Obligated for Real Property
1992	44,888	18,192
1993	28,828	3,867
1994	16,346	31,617
1995	50,777	42,855
1996	18,100	49,000
TOTALS	158,939	145,531

3/5/97

RESPONSES OF MR. KENNEDY TO QUESTIONS ASKED BY SENATOR BIDEN

Question 1. Post Closings. The State Department closed some thirty posts in the last several years, although it has also opened several new posts in the nations of the former Soviet Empire.

- How do you make decisions to close posts? What criteria do you use?

Answer. In recent years, the Department has almost always closed overseas posts in response to budget problems. We believe that one of the ways the Department can and should fund higher priorities in a tight budget environment—including the opening of new posts—is to close some posts where we can meet our consular and diplomatic needs through other means.

Developing a list of posts to be closed is a process which involves close cooperation between the Department's central management offices and the geographic bureaus. Once a preliminary list is prepared, it is discussed with other executive branch agencies so that their concerns can be addressed in the final decision process. And, in keeping with legislative requirements, the Department consults with the Congress so that its concerns can be met as well.

Our commitment to universal diplomatic representation has meant that most of the posts closed in recent years have been consulates rather than embassies, although a few embassies in small, island nations were closed in recent years. These embassies were in Micronesia, the Caribbean, and off the coast of Africa.

The criteria considered in deciding which posts to close include:

- the consular workload at the post (e.g., visa issuance, American citizen services);
- political or political/military concerns;
- American economic/commercial interests;
- global issues (e.g., environmental and humanitarian interests);
- law enforcement issues; and
- the operating costs involved in maintaining the post.

Question 2. Staffing requirements. Two years ago, the General Accounting Office found that the Department relied on historical staffing levels at each location instead of determining the staffing required to achieve key foreign policy objectives in a country. The Department has apparently moved to rectify this problem by developing an "Overseas Staffing Model," which, as you stated, attempts to calculate staffing needs based on either objective data or on policy priorities.

How was the model developed?

Answer. The Overseas Staffing Model (OSM) was initially conceptualized by the January 1995 Strategic Management Initiative Team. This team designed a prototype and outlined a general process by which the Department could rationally determine appropriate staffing for Core/Program, Consular and Administrative components at all embassies, based on our foreign policy objectives and workload. Since that time, we have consulted with subject matter experts, redesigning the initial components and developing two additional components (diplomatic security and information management). We have also enlarged the Model process to include overseas posts other than embassies (e.g., consulates, consulates general branch offices, etc.) We have tested the entire Model and are in the process of fine-tuning some of its components.

The development of the Model enables us to examine our posts in a worldwide perspective. In order to make the necessary global workforce decisions, we have es-

tablished an Overseas Staffing Board, comprised of the Principal Deputy Assistant Secretaries for the regional bureaus and new independent states (S/NIS), the Director General of the Foreign Service, the Chief Financial Officer and the Executive Secretary. The Board has participated fully in the design of the Model and the review of the results.

How is it being implemented?

The Overseas Staffing Board will review the final results of the Model and make staffing recommendations to the Under Secretary for Management. These recommendations will be considered in developing the FY98 Financial Plan and FY99 Budget submission. In addition, posts have been asked to address the Model's Core/Program component results in their current Mission Program Plans, so that we will be able to determine the effect of Model implementation. Bureaus will then incorporate post input and Model results into their Program Plans, which senior management will in turn use to assess resource allocations and requirements in line with the Department's strategic plan.

How frequently will it be revalidated?

As this is the Model's first year, we have not made a final decision on the frequency of validation. We anticipate that the Overseas Staffing Board will meet at least bi-annually to rank our overseas posts and to be briefed on current issues affecting posts which the regional bureaus find inappropriately ranked. The Model will be run to coincide with the program planning process, which will in turn lead into the preparation of the financial plan and budget submission.

Do you expect it to lead to significant changes in staffing requirements?

Yes. The Model will determine worldwide staffing changes by each of its components, and identify shifts in staffing resulting from changes in foreign policy priorities and workload. In the initial run, the Model projected that the Department needs an additional 200 positions overseas to support foreign policy. Priorities, satisfy mandated functions, and provide necessary administrative service to all USG agencies overseas. The Model also identified where staffing shifts were required among regions.

Question 3. Presence in the NIS. As I said in my opening statement, I want to be sure that we are placing proper emphasis on assuring a strong diplomatic presence in the New Independent States of the former Soviet Union.

—Please provide a summary of our presence in each of the nations that once comprised the Soviet Union (including Russia). Specifically, how many American officers do we have in each post?

—Have we been able to buy or lease embassy facilities—or are our people still operating out of hotels?

Answer. American direct hire staffing of all agencies in the NIS is as follows:

Baku, Azerbaijan	14
Yerevan, Armenia	30
Minsk, Belarus	28
Tbilisi, Georgia	21
Chisinau, Moldova	17
Almaty, Kazakhstan	66
Bishkek, Kyrgyzstan	17
Moscow, Russia	316
St. Petersburg, Russia	23
Vladivostok, Russia	10
Yekaterinburg, Russia,	5
Dushanbe, Tajikistan	12
Ashgabat, Turkmenistan	15
Kiev, Ukraine	81
Tashkent, Uzbekistan	29

Not under the responsibility of Special Adviser for the New Independent States, but part of the former Soviet empire:

Talinn, Estonia	19
Riga,Latvia	18
Vilnius, Lithuania	17

The American Embassy in Dushanbe Tajikistan operates out of the October Hotel, pending the renovation of a building recently leased to become a permanent Embassy Office Building. The USG has purchased-leased, or built chanceries in all other posts in the former Soviet Union.

Question 4. When ICASS is fully implemented, will the other US agencies be paying the full costs of their presence overseas? If not, what is the Percentage of the costs that they will pay?

Answer. It is the goal of ICASS that other agencies will pay the full costs of their presence overseas. That said, ICASS as it is now organized and agreed to by the other agencies, does not yet meet that goal. It does, however, make a good start. For example, under the previous system of shared administrative support (FAAS), other agencies paid only 19.5% of covered support costs overseas. By fully sharing administrative personnel salaries and benefits, and by including in the common cost pool building operating expenses for goverenment-owned/long-term leased office buildings, local guard expenses for offices, and community liaison office expenses, ICASS increases other agencies share to approximately 36%.

There remain several key, and expensive, areas of administrative support overseas which are borne solely by the Department of State but which benefit other agencies, e.g., Regional Security Officer salaries/benefits and certain aspects of the Departments Information Management program. It is the Department's intention to negotiate the inclusion of these and other appropriate shared costs into ICASS for FY 99 and subsequent years

Question 5. Presence of other agencies overseas. Aside from the other foreign affairs agencies (i.e., AID, USIA), how are decisions made to place personnel from other U.S. government agencies overseas? In other words, what are the bases of such decisions, and what criteria are used to assess whether to place personnel from other agencies overseas?

Answer. Decisions to place USG personnel overseas are generally based upon the same criteria, regardless of which U.S. agency is assigning its personnel. Agencies use their own internal assessment mechanisms to determine if and when a new overseas position is needed. These assessments include, but are not limited to, reviews of current and anticipated workload, agency priorities, available funding, and Congressional mandates. Agencies may also consider whether an increase in staffing at one post can be offset by a decrease at another post, if existing support mechanisms are sufficient, and what kind of staffing is needed (personnel traveling from the continental U.S. or other posts, temporary personnel, or locally hired personnel).

If an agency determines it must establish a new position overseas, it coordinates with the appropriate chief of mission. Informal coordination is always encouraged. However, to add full-time, permanent, direct-hire positions, an agency submits a formal proposal to the chief of mission for approval. A formal proposal should provide detailed justification, such as the findings of the agency's internal assessment.

As the personal representatives of the President, chiefs of mission have responsibility and authority over all USG Executive Branch agency operations and activities within their missions, except those detailed to an international organization or under the authority of an area military commander. Chiefs of mission are charged by law and the President to direct, coordinate, and supervise all mission personnel under his/her authority.

In making their decisions, chiefs of mission take into account the agencies' detailed justification, the views of concerned State Department offices, substantive policy considerations, and the adequacy of administrative support. The policy goals and objectives of the mission, political realities, security implications, and other issues are also considered by chiefs of mission. Once the chief of mission has determined that the staffing change requested is essential, approval is granted and the concerned agency may assign its new personnel overseas If a staffing change proposal is disapproved, the concerned agency has the option of appealing the chief's of mission denial to the Secretary of State. Chiefs of mission are also directed by the President to initiate staffing changes whenever they consider current staffing within their missions to be either inadequate or excessive to the performance of essential mission functions.

Question 6. Diplomatic Security. Back in 1986, the Committee, in cooperation with the Reagan administration—and based on the recommendations of the Inman Commission—pushed through new legislation designed to enhance our diplomatic security.

Now that we have had a decade of experience with the law, give us your assessment of the successes and failures over the past ten years.

- Please provide a summary of the "risk management strategy" referred to in your statement. Provide the information in classified form if necessary.

- How often are the assessments revalidated?

Answer. The Advisory Panel on Overseas Security, headed by retired Admiral Bobby Inman, was convened in 1984 to address the chilling phenomenon of terrorism at our missions abroad. On November 4, 1985, the Bureau of Diplomatic Security (DS) was created and the Inman Panel's recommendations received strong support from Congress.

At that time nearly half of our diplomatic facilities overseas were highly vulnerable to threats requiring physical and technical security countermeasures. Many of our embassy facilities fronted onto busy streets and were open to bomb attacks; others were vulnerable to espionage as the result of shared buildings with non-U.S. tenants.

Much has been accomplished in the past 10 years at our missions abroad. Physical security projects (e.g., perimeter walls, public access controls guard booths, bollards) have been completed at all posts based on security standards appropriate to the situation and level of threat at each post. Security standards for protection of sites and materials for diplomatic facilities under construction or major renovations abroad are now employed at all project sites.

To protect the homes and families of mission employees, including those of other Foreign Affairs agencies, residential security upgrades (e.g., locks, lights, grilles, alarms) have been provided to 216 posts. Like the physical security program, residential security is an on-going effort because of new acquisitions and lease terminations.

Consistent policies and standards were developed for the local guard program, and a local guard manual was published. The Local Guard Program is currently administered by DS security professionals. In addition to local guard forces, Marine Security Guard detachments are currently deployed at 121 posts.

In the technical security area, DS developed policies and standards for information systems security and initiated the technical Countermeasures Program (CMP), which was recommended by the Inman commission. CMP was charged with the development of programs, equipment and policies to address the technical security threat abroad. Some of the CMP initiatives included development of technology to address electronic eavesdropping and the development and installation of treated conference rooms to provide secure conference and processing facilities.

To address the threat of espionage, or the human intelligence threat, DS designed a counterintelligence program to deter, detect and neutralize the efforts of hostile intelligence agencies against our employees.

The focal point of our security efforts is the Regional Security Officer (RIO), who is responsible for the management of all post security programs. Required to complete a formal, in-depth training program, RSOs are augmented by a cadre of Security Engineering Officers, Diplomatic Couriers, Security Specialists, and other professionals. The DS training function now provides a comprehensive training program. Security training is available, as appropriate, to the entire Foreign Affairs community in numerous security specialities and at many levels of instruction.

As our security program was built up and evolved following the Inman Commission recommendations, many realized that adequate security for one post may be excessive at another post in a less threatened environment. Since 1990, the Bureau of Diplomatic Security has issued 46 standards developed through the Overseas Security Policy Board (OSPB), which consists of representatives from all agencies represented at U.S. missions abroad. The standards applied at each post are determined by its threat level (low, medium, high, or critical) for each of four categories of major security threats overseas: 1) Political Violence/Terrorism; 2) Human Intelligence or Espionage; 3) Technical Penetration; and 4) Crime.

Because the security standards were developed by threat level, they are inherently flexible, and assist DS with adjusting to changing threat environments. The threat environment overseas is monitored on a daily basis, with emergency and critical threat requirements receiving priority attention. DS promulgates formal threat assessments semiannually in the Departmental Composite Threat List with input from the intelligence community and other sources. The threat list, which rates each post in every category, serves as the basis for the level of security support a post receives.

By updating original standards and developing new standards for emerging technologies such as cellular phones, DS keeps the standards process dynamic and responsive to the actual security environment overseas. The development and application of a Risk Management approach has further refined this process to ensure resources are managed effectively and efficiently.

The Bureau of Diplomatic Security, in cooperation with the Overseas Security Policy Board, developed the Risk Management policy, which was issued on July 20,

1994. The policy calls for a detailed examination of 1) the threat that a specific post is facing, 2) the vulnerability of our physical assets to that particular threat, and 3) the value of the physical assets. Based on this analysis DS adopts appropriate and cost effective countermeasures. The recommendation states whether an exception to the standards should be granted or whether a different countermeasure, other than the one contained in the standards, should be applied. In this way countermeasures are more accurately tailored to post, often avoiding costs of unnecessary security upgrades. When a post's threat level changes, or when a post changes its level of classified processing, countermeasures based on standards plus the application of the Risk Management policy are reassessed and adjusted as necessary.

The application of the Risk Management policy has made it possible for the Department to use resources more effectively and efficiently. Resulting savings can be deployed to meet our most pressing security needs and other high priorities.

Question 7. Information Resources Management

How will the State Department facilitate a smooth transition at the staff level from the Wang computer system to new systems? How will the overseas personnel be included in this process?

Answer. The transition is already underway. Many employees are already using new systems for word processing, spread sheets and data bases. We recognize that expansion of our training and education program for information resource management professionals must be an essential component of the transition to modern information systems.

To achieve a comprehensive and integrated training program, we recently established a School of Applied Information Technology at the Foreign Service Institute. Our goal is a technologically competent workforce capable of adapting to the changing IRM environment in Washington and our overseas posts. The School will, taking into account existing personnel capabilities, IRM core competencies and the particular technologies embedded in our modernization plan, ensure that curriculum and resources are appropriately directed to areas of need. The School is currently engaged in providing training to overseas post personnel on the Wang replacement hardware and software.

We need to leverage scarce training dollars and intend to employ the most advantageous delivery systems and training philosophies. Thus, while more traditional methods like classroom instruction and mentoring continue to be alternatives, we also utilize, for both overseas and domestic students—computer and video based training. In addition, we are currently running distance learning pilots.

Question 8. Security and Computer Modernization.

With different levels of confidentiality, ranging from unclassified to top secret, it seems that ensuring the security of documents and correspondences will be challenging indeed. Presently some offices have up to three different computer systems at one work station. Greater demands are being placed on the State Department to communicate by computer with other U.S. agencies and to outside organizations—possibly increasing the vulnerability of State's information system.

How will modernization efforts reduce the volumes of computers, streamline the information system, facilitate communication with other agencies, while ensuring a high level of security? What, if any, are the new security risks posed by the information technology changes, and how will those risks be addressed?

Answer. One of the important benefits of the modernization plan is the enhancement of information security it offers by enabling the review of vulnerabilities at critical connection points. That is not possible today in an environment of multiple computer systems. At the same time, however, because we are moving away from a proprietary environment to open systems standards, the network may be more accessible to hackers or more susceptible to the insertion of viruses. We are cognizant of the increased exposure to risk and the compromise of information, and we intend to monitor the network carefully. We will regularly update our firewall programs and our anti-virus security software, so as to be able to close security loopholes as soon as they are discovered. Adoption of opens systems standards will afford us considerable flexibility and the opportunity to take advantage of the growing number of vendors offering security software, hardware, encryption techniques and training.

In order to ensure that our modernization plan takes information system security fully into account, we have adopted a lifecycle approach to program management. We require that information security be explicitly addressed at the outset of any planning effort. Program plans and budgets must include a discussion of the security issues that may be anticipated over the lifetime of a proposed program. Resources must be budgeted for training, and the acquisition, maintenance and possible improvement of security hardware and software.

We see a need to expand our training program to specifically meet our information security management objectives. To this end, we are working with George

Mason University and the National Defense University on information security training; we are increasing enrollment in courses on project management; and we are examining the assignment of information system security officers to major information technology facilities or programs.

Question. What is the purpose of the proposed conference on international environmental cooperation?

Answer. Securing favorable international agreements is only one of the steps necessary to protect our environmental interests. Agreements must be structured with compliance in mind, and when agreements are concluded we must work with governments to ensure that they meet their obligations. for this reason, former Secretary Christopher announced, as part of his initiative to put environmental issues into the mainstream of U.S. foreign policy, that the U.S. would host a conference on compliance with international environmental agreements.

While a date for the conference has not yet been set, we anticipate an early 1998 timeframe. The list of invitees will include foreign government personnel involved in the negotiation of environmental agreements, as well as officials of environment, industry, trade, finance and other ministries involved with enforcement and implementation, and relevant industry groups and NG0s. Exact location and format are not decided. We will keep congress informed as planning progresses.

We hope the conference will produce practical approaches to ensuring compliance with agreements we have negotiated and which may be negotiated in the future.

RESPONSES OF MR. KENNEDY TO QUESTIONS ASKED BY SENATOR FEINSTEIN

Information Management

Question 1. I am glad that the Department is taking action to overhaul its information technology. In the age of CNN I think it is no understatement to say that the effective management of information is critical to America's diplomatic success. I am troubled, however, by one aspect of the Department's plans: When the Department purchased the Wang system a little more than a decade ago it was considered state of the art by many inside and outside government. Now it is a very expensive paperweight. Given the rapidity of the computer and information revolution, what assurances can you give this Committee that ten years from now, having endorsed a costly new computer and information system for the Department to see us into the new millennium, we will not be once again be faced with a similar situation?

Answer. The original Wang equipment utilizes proprietary technology that precludes the integration of more modern information systems and applications. During the last several years the industry has moved to open system standards which permit the integration and utilization of new hardware from multiple vendors, and modern software applications.

The Department is committed to a strategic information resource management plan at the heart of which is implementation of an information technology architecture that will allow us to evolve or maintain existing information technology while acquiring new information technology. This architecture is predicated on established industry standards, i.e., open systems, which are conducive to interoperability and the use of commercial software applications, such as financial and personnel data bases.

A further important feature of the Department's strategic information resources plan is life cycle management of information technology. We will periodically replenish our technology base in order to meet the business requirements of the Department. Open systems standards provide flexibility and a cost effective operating environment.

(Editor's Note: Question 2 was crossed out.)

Information Management

Question 3. What efforts are being made by the Department to integrate new communications technology—such as e-mail or video-conferencing—into the way in which the Department conducts business? Do you anticipate-that these changes—overhauling the present cable writing and review process in light of electronic communication, for example—will have any significant management or financial impacts on the Department?

Answer. Extensive discussions with Department staff and an analysis of the Department's missions underpin the Department's strategic information resources management (IRM) plan. We will improve or introduce new capabilities so that

users can get their work done. We have already seen the impact of new information technologies.

E-mail, with the capability to attach documents, has become an established means for Department staff to collaborate and coordinate. In January alone this year there were over 343,000 e-mail messages. At the same time, there are important issues with management and financial consequences to be considered. For example, e-mail messages may not be used as a substitute for established policy channels, including cables. Certain e-mail messages may fall within the definition of records in the Federal Records Act and, as such, they must be preserved in accordance with law and regulation. Finally, in view of congestion at network gateways, and the need to introduce common messaging and directory standards, our strategic IRM plan includes investments to improve the overall performance of our e-mail system.

We have more limited experience with video-conferencing. The Diplomatic Telecommunications Service Program Office (DTS-PO) recently supported two video-conferencing pilot projects, one involving studio video conferencing for USIS in Geneva, and the other involving desktop video-conferencing for USAID in Jakarta. In addition, several Department Bureaus, in collaboration with USIA, have been using USIA video-conferencing facilities in Washington and overseas to conduct bilateral conferences and negotiations. They will soon begin to use a video-conference facility in the State Department, and, as previously, host country officials will be invited into the USIA video-conferencing facilities. Finally, we are also examining the opportunities to broaden the reach of training programs through introduction of distance learning via video-conferencing.

The information technology architecture which is central to our strategic information resource plan will allow for the orderly introduction of video-conferencing services once industry standards have been established and video-conferencing becomes a broadly-based and validated business-need. The bandwidth requirements are heavy, however, and may constrain development and implementation.

Border Security Program

Question 1. According to the Department's Tactical Plan for Information Resources Management, one of the goals that you are currently trying to meet is to strengthen border security through "more reliable name check processing and improved integrity of passports and visas." I was wondering if you could describe for me what some of the problems and dangers with the current system are, and how, more specifically, these improvements will make the name check processing more reliable. I was also wondering if you might comment on the coordination process between the Department and other federal agencies on these issues.

Answer. The Department of State's efforts to improve border security are rooted in four issues: information, infrastructure, communications connectivity and human resources. Improving the quality of name checks requires targeted investments in at least three of these areas. The basis for name checks is having access to information generated by both the Department of State and other federal agencies regarding persons who may be inadmissible to the United States. Significant strides continue to be made in this area. In 1994 the database in the Consular Lookout and Support System (CLASS) totaled some 3 million records. Today, owing to the willingness of other federal agencies to share data, there are more than 5 million records in CLASS. Furthermore, on-going negotiations with the FBI could result in significant growth in this database through the inclusion of information on persons who were born abroad, but who have a U.S. criminal history.

The second method to strengthen name checks requires improving the speed and accuracy of the linguistic-based algorithms which actually perform the name comparisons. In 1994, before the Department was authorized to retain Machine Readable Visa fees, there was only one general purpose algorithm which performed all name checks. Today, that general purpose algorithm has been improved and has been augmented by both a date-of-birth algorithm used for all name checks as well as a specialized algorithm which performs name checks on names of Arabic origin This process of specialized name checks will grow in FY-1998 with the introduction of an Hispanic language algorithm.

The next element in improving name checks requires significant investments in the mainframe computer system upon which CLASS operates. Such a major investment is planned for late in FY-1997. This investment, in turn, will allow for the introduction of a new version of CLASS which operates as a relational database and allows for more robust data management techniques. Finally, there is the issue of communications connectivity between the Department and visa-issuing posts. The most accurate name checks are those performed against the Department's mainframe computer in Beltsville, Md. That computer has both an up-to-date database as well as more powerful algorithm than can be installed at the post level. Today,

and as a direct result of the Department's ability to retain MRV fees, every visa-issuing post has on-line connectivity to the CLASS database in Beltsville.

Regarding the issue of cooperation with other federal agencies, the growth in the CLASS database—about 60 percent in the last three years-demonstrates the willingness of federal agencies to share data to help keep our borders as secure as possible.

Question 2. Mr. Kennedy, I was wondering if you could expand on the Department's efforts to increase border security.

As I understand it, the revenues generated by the Department's Machine Readable Visa programs are going to be earmarked for the Department as part of a government-wide initiative supported by the OMB to link user fees more directly to those departments and agencies responsible for the revenue. These MRV fees, in turn, will become central to creating the budget needed to implement the Department's Border Security Programs.

What would happen to border security efforts if these fees do not become available to the Department because the government-wide program does not go through? I was also wondering if you could explain how you derived the $140 million estimate for fees from MRVs, and what the potential impact would be if MRV fees generated considerably less than this amount?

Answer. Since 1994 the Department of State has had the authority to assess and retain a fee imposed on all applicants for Machine Readable Visas. The proceeds of this program must be used to finance "consular operations."

While the MRV fees are part of the Administration's overall proposal to allow for fee retention, it should be understood that the Department currently has this authority in terms of MRV revenue and has financed the entire Border Security program from MRV proceeds. Any development which ended the Department's authority to retain MRV fees would have a devastating effect on our efforts to continue to improve U.S. border security. Not only would our new investments in systems and technology have to end, but we would be unable to finance the people and infrastructure currently committed to the Border Security program.

The estimate of $140 million in MRV revenue in FY 1998 is based on the projected workload of 7 million visa applications and the current fee of $20 per person. The FY-1998 estimate represents an increase of only 2 percent above our current projection that FY-1997 collections will amount to nearly $137 million.

Should MRV collections decline for some reason, for example, as a result of a widespread conflict or epidemic that limits international travel, the Department would be faced with a serious resource issue. We would have reduced revenues, but our costs would not decline immediately. We have engaged in some preliminary planning about such a contingency, however. The first option would be to finance on-going border security activities by drawing down all balances in the MRV account That would probably finance a few months of services. Should the decline in revenue continue beyond that point, however, the Department would have to undertake an aggressive effort to reduce its border security costs to the level required by demand for visa services. Such a development, while unlikely, would almost certainly result in staff reductions and the cancellation of planned investments in border security technology.

China 2000

Question. Beyond additional language classes, I was wondering if you could provide me with more information on the efforts being undertaken by the Department to build a cadre of real china experts.

Answer. The Department of State recognizes the need to advance the rapidly growing interests of the United States with China. Expanding our cadre of China experts is a keystone of our long-range strategic plan for accomplishing our mission. The plan has two additional elements—improving our facilities and our information technologies in China. These three efforts form the core of our special drive, known as China 2000, to prepare the Department for near- and long-term relations with China.

The quality of American diplomacy—and thus our ability to maintain a productive relationship with the Chinese and advance our strategic interests—is determined by several key factors. One is developing our officers' fluency in the Mandarin Chinese language. We have taken steps to attract the highest quality young officers and staff to positions in our posts in China. These are employees with the skills, motivation and commitment to overcome the difficulties of Chinese language training and to surmount the rigors of serving in china. We are also encouraging those who succeed in achieving Chinese language proficiency to serve repeat tours in China—often in different professional areas and with increased responsibility. Our goal is to increase significantly within the next six to eight years the number of Chinese-speaking officers available for assignment to China.

Other steps we are considering include expanding in-country language training in Beijing and undertaking new recruitment efforts for Chinese-language proficient and China-experienced FSO candidates.

Although Chinese language capability is important—it is only one of the tools needed to get the job done. We must ensure that our employees also have knowledge of the Chinese culture and way of doing business; they must have analytical and management skills; they must have knowledge of global issues and the broad strategic interests of the United States. We are taking steps to ensure that our cadre of China experts is as well-equipped as possible in such areas.

China 2000

Question. Given the size of the problems that we face in building a more adequate infrastructure for our diplomatic efforts in China, how much headway will the $3 million requested in FY 1998 really allow us to make? Could you expand on the total budget request that China 2000 will entail and how those funds will be phased and used over the next several years?

Answer. In addition to the Embassy facilities in Beijing, the USG operates four Consulates General in China: Shanghai, Shenyang, Guangzhou, and Chengdu. We also operate a Consulate General in Hong Kong. The facilities we currently hold in Beijing were acquired in the 1970's and have been outgrown by increasing Embassy staff. Work is needed on housing and office facilities at constituent posts as well. To meet this challenge the Department is evaluating U.S. Government projected staffing in China and resulting facility needs.

During FY 1994-1996, inclusive, the Office of Foreign Buildings Operations has provided over $95 million in direct support of facility requirements in China (including Hong Kong) and is prepared to proceed with an upgrade of the mechanical systems in the chancery and with construction of a Cleared American Annex for the present Chancery in Beijing which will accommodate the increasing number of Americans for the near future. The Department presently plans that funding for this project and other facility requirements in China will come from sales of excess real property. In addition to the new annex in Beijing, the chancery will undergo a renovation to improve the mechanical, electrical, plumbing, heating and air conditioning. The entrance and receiving areas of the Embassy will be redesigned.

Staff apartments which are leased from the Chinese Government are sub-standard. The Department is planning to renovate these apartments and is analyzing the feasibility of constructing housing on a lot which we presently own.

This project will provide the necessary facilities required now and in the near term and allow time for longer range development to be planned and implemented.

In Chengdu, provision of secure communications will require a major addition carried out by cleared American workers.

In Shanghai, a $8.8 million rehabilitation of the consulate is in progress and will be finished this year. Residential facilities are being reviewed as well with the Department looking at construction of housing on a USG-owned lot. Leased housing in Shanghai is among the most expensive in the world.

In Guangzhou, the Consulate General and staff residences are co-located in a single high rise tower. As our lease terminates in 2005, we are planning for our future office and residential needs. Guangzhou processes all immigrant visas in the PRC.

In Hong Kong, the Department has underway a major $28.9 million renovation of the Consulate General which will be completed in May 1997. The rehabilitation included building modifications, security improvements, fire and life safety improvements as well as the upgrade of the mechanical and electrical systems.

The Department intends to generate funds for other construction and major renovation projects throughout China from asset management. Although we estimate that short term needs can be met utilizing sales proceeds, the cost of construction of a new Embassy facility in China would likely require substantial funding beyond the present availability of sales proceeds.

We expect to acquire a site adjacent to our current facilities (the Bulgarian Compound) in accordance with the 1991 and 1994 property agreements upon which a new Chancery could be constructed in the future.

Question. I understand that the proposed FY 1998 budget does not reflect the changes that ICASS will have on the Department's budget Could you expand (on your earlier comments) on the support services provided by the Department of State to other government agencies under the current system which will now be shared more equitably under ICASS?

Answer. It is true that the Department of State FY 1998 budget does not reflect the changes that ICASS will have on the Department's budget At the time the Department formulated its FY 98 budget, the budget adjustment numbers related to ICASS had not been finalized. In addition, the Administration believes that a stand-

alone budget amendment, separate from each agency's Congressional budget request, will provide a more comprehensive presentation of the transfers and a unified review by the Congress. In FY 90 the Department attempted a more equitable sharing of its administrative support costs overseas through expanded FAAS. In this process, budget adjustments were made part of the Congressional presentation. As separate Congressional Appropriations Subcommittees acted on the requests from each agency, reductions/changes were made to the transfer. As a result, agencies did not have enough funding to pay their expanded FAAS bills, and expanded FAAS failed. This time the stand-alone zero-sum budget amendment can be effected in toto and should provide agencies with sufficient resources to cover their FY 98 ICASS charges.

The Department of State provides a wide range of administrative support services to agencies overseas including, personnel administration, security, housing/leasing, maintenance, procurement, customs & shipping, information management, and other support services necessary to maintain government functions overseas. ICASS moves in the direction of more equitable sharing of these support costs by distributing several administrative functions, hitherto borne solely by the Department, among State and all agencies benefiting from the services. These areas are building operating expenses for our Chanceries and other government-owned/long-term leased offices, local guard expenses for offices, and community liaison office costs. ICASS also opens the way for more comprehensive understanding and sharing of overseas costs in future years.

Question. Do you anticipate that ICASS, in shifting the burden off the Department of State, may also create situations in which other agencies which would find themselves paying for mission administration may want to have more say in how overseas missions are run than is consistent with the agency missions, but not necessarily in the best interest of US diplomacy? What sort of consultative and coordination processes to settle issues of mission management does ICASS put in place?

Answer. ICASS contains a number of features which, while providing for customer feed-back and encouraging service-provider responsiveness, preserves the Department's ability to maintain its operating platform overseas and to conduct its core diplomatic function. The ICASS Council at overseas posts acts like a corporate board of directors in overseeing the provision of support services. The service provider (generally the Administrative Counselor of the Embassy) as well as the Deputy Chief of Mission are members of the Council. Decisions are reached preferably by consensus and, if that is not possible, by a two-thirds vote. In extreme cases—a Chief of Mission may overrule a Council decision if it jeopardizes the Department's ability to maintain its operating platform and conduct its core diplomatic function.

At the Washington level, ICASS is managed by the Department's Financial Management Bureau and its ICASS Service Center. Policy is set by an inter-agency body, the ICASS Executive Board, currently chaired by the Department of State Assistant Secretary for Administration and by the Washington ICASS Working Group.

In sum, ICASS is a participatory, performance-based, cost-driven system of providing administrative support services to our overseas missions which preserves the Department of State's diplomatic and management functions.

Question. The past several years have seen an increasing number of American diplomats lose their lives or be placed in harm's way in the pursuit of American diplomacy. Indeed, sometimes it seems that at a time we are increasingly hesitant to put our soldiers in potentially dangerous situations we do not think twice about sending our diplomats. For that I believe that the State Department and America's diplomatic corps deserve our thanks, and support.

In the last two years we have provided the Department with two specific counter-terrorism appropriations. Given the risks that we ask our diplomats to face, could you provide us with additional information about the Department's counter-terrorism programs, and how the efforts of the Diplomatic and Consular Programs and Security and Maintenance of U.S. Missions programs are coordinated? What progress is being made towards the implementation of the 1997 Anti-terrorism Budget Amendment?

Is there any program or effort to increase diplomatic security that you would like to be able to undertake but for which you feel the current budget request does not provide sufficient funds?

Answer. The security of our posts and all our personnel is a solemn responsibility, and we can have no higher priority. We very much appreciate your support for the diplomatic corps and for the Department's security programs.

Attached is a report we have prepared that details how the Department is applying the portion of the Fiscal Year 1997 Antiterrorism Budget Amendment that provides for security enhancements under our Diplomatic and Consular Programs account. The report addresses the important questions you have raised.

Plan for Implementation of
Funding for Counterterrorism Requirements Overseas in
Title IV, Departments of Commerce, Justice, and State,
the Judiciary, and Related Agencies
Appropriations Act, 1997
Section 101(a) of Division A of P.L. 104-208
(Making Omnibus Consolidated Appropriations For
Fiscal Year 1997)

IMPROVING THE SECURITY OF U.S. DIPLOMATIC FACILITIES AND INCREASING THE PROTECTION OF PERSONNEL OVERSEAS

FY 1997 COUNTERTERRORISM BUDGET AMENDMENT DIPLOMATIC AND CONSULAR PROGRAMS FUNDING FOR COUNTERTERRORISM REQUIREMENTS OVERSEAS DECEMBER 1996 ($23,700,000)

Consistent with the Conference Report to the FY 1997 Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, P.L. 104-208, this report is provided to detail the Department of State's plan to apply the $23.7 million portion of the Counterterrorism Budget Amendment to security enhancements for U.S. diplomatic facilities and increasing the protection of personnel overseas.

Our embassies and consulates are essential platforms for American interests. This goes beyond the day-to-day conduct of foreign policy. They are the platforms for a wide range of activities such as law enforcement and promotion of U.S. security and economic interests. The State Department's diplomatic readiness has been significantly eroded. We have shortfalls in every major component—facilities, housing, training, information management, post operating equipment and security. The Department is extremely appreciative of the resources made available in this bill to enhance security, primarily in the Middle East, and to make an initial down payment on the security infrastructure gap that has to be addressed over the next several years.

I. OVERSEAS PHYSICAL SECURITY SUPPORT: $12,260,000

LOCAL GUARD PROGRAMS ($6,000,000)

Funding limitations have required the Department to fund and staff local guard programs at the minimum level allowed by Overseas Security Policy Board approved standards in most cases. Additional funding will supplement guard programs at high and critical threat posts to enhance those essential staffing levels. The funding will provide for additional countersurveillance teams and mobile patrols, increased numbers of fixed guard posts at high profile installations and residential complexes, and guard vehicles and other equipment to meet the prevailing threat.

In the Middle East, the following posts will receive supplemental guard funding: Abu Dhabi, Algiers, Amman, Beirut, Cairo, Damascus, Dhahran, Dhaka, Dubai, Islamabad, Jeddah, Jerusalem, Karachi, Kathmandu, Kuwait, Lahore, Manama, New Delhi, Peshawar, Rabat, Riyadh, Sanaa, Tel Aviv and Tunis. An estimated $500,000 will be utilized to meet increased contract and pay requirements at other high and critical threat posts to maintain existing or enhanced security coverage levels.

RESIDENTIAL SECURITY PROGRAMS ($1,000,000)

Most of these funds will be utilized for residential security equipment upgrades to high and critical threat posts and for shatter resistant window film (SRWF) in residences in the Middle East region. Since residential security funds for medium

and low threat posts had been deferred to support the needs of high and critical threat posts, the remaining funds will allow the Department to fully fund posts at all threat levels, which would bring them into compliance with the residential security standards.

FULLY ARMORED VEHICLES ($2,160,000)

The Bureau of Diplomatic Security (DS) intends to provide sixteen (16) fully armored vehicles to posts in the critical/high threat category for the transportation of employees under heightened risk.

DS has begun processing orders for seven fully armored carry-all vehicles, and will procure nine additional vehicles during the last two quarters of Fiscal Year 1997. As soon as the first order for four vehicles is delivered, a fully armored vehicle will be sent to each of the following posts:

Kuwait, Jeddah, Riyadh and Sanaa.

The remaining l2 vehicles, upon delivery, will be sent to the following posts:

Amman (1), Beirut (2), Cairo (2), Damascus (2), Jeddah (1), Jerusalem (1), Kuwait (1), Riyadh (1) and Tel Aviv

LIGHT ARMORED VEHICLES ($1,700,000)

Posts in the Near East region require additional light armored fleet vehicles to safely transport staff and dependents. The Department is placing an order with the General Services Administration for 27 carry-all vehicles. Upon delivery, sixteen fleet vehicles will be light armored by the Department's contractor and sent to the following posts:

Abu Dhabu (1), Algiers (2), Amman (2), Cairo (2), Dhahran (1), Jeddah (1), Jerusalem (2), Kuwait (2), Manama (2) and Riyadh (1).

Six of the remaining vehicles will be configured as follow cars to support protective security missions at the following posts:

Beirut, Cairo and Tel Aviv.

The five remaining vehicles will be temporarily retained by DS for shipment as contingencies arise during the year. In addition, a 28-passenger bus is being light armored for use by the Embassy in Riyadh.

PHYSICAL SECURITY CONTRACTOR SUPPORT ($400,000)

The increased funds being provided the Office of Foreign buildings in the Budget Amendment for Security and Maintenance of U.S. Missions ($14,300,000) will impact directly on the workload of the Physical Security officers in the Bureau of Diplomatic Security. To meet the increased workload, DS plans to hire, under contract, four physical security professionals and provide necessary funds for their travel.

DS is requesting the contractor supporting the Physical Security Programs to provide the additional four security professionals commencing March 15, 1997. These persons will perform site visits to posts in the Middle East region; design physical security improvements; interpret regulations and standards; perform technical surveillance inspections; examine the results of the enhancements performed by commercial contractors; provide necessary transit security for the materials used; and prepare reports to Congress in accordance with relevant statutes confirming that the work will be performed in a secure manner.

PUBLIC ACCESS CONTROL EQUIPMENT ($400,000)

Each overseas post has at least one walk-thru metal detector (WTMD) and a limited number of hand-held metal detectors. DS plans to use the available funds to provide 80 additional WTMDs to critical and high threat posts. DS anticipates completing procurement during the third quarter of Fiscal Year 1997.

SPECIAL PROTECTIVE EQUIPMENT ($300,000)

State Department security officers have worldwide security and law enforcement responsibilities. The bullet proof vests currently issued to them no longer meet acceptable standards of protection due to age and normal deterioration. DS needs to purchase 190 replacement vests; purchase other special protective equipment (e.g., pistols, holster/handcuffs, training ammunition, ballistic vests) for the 55 new agents funded by the Counterterrorism Budget Amendment; and purchase 45 automatic weapons and 45 sets of night vision equipment to meet existing requirements.

DS plans to purchase the replacement vests during the third quarter of Fiscal Year 1997. The equipment needed for the new agents and the automatic weapons

and night vision equipment will be purchased in the third and fourth quarters of Fiscal Year 1997.

REGIONAL SECURITY OFFICER TRAVEL ($200,000)

DS plans to fund additional temporary duty costs for Regional Security Officers (RSOs) to travel to high and critical threat posts, particularly those in the Persian Gulf, to ensure professional security officer oversight continues during assignment gaps, to conduct security surveys, and to support resident RSOs during incidents requiring an emergency response. Countries requiring this additional intensive travel support include Bahrain, Egypt, Kuwait, Qatar and Saudi Arabia.

USIA/PEACE CORPS SUPPORT ($100, 000)

DS will provide additional security support to USIA for Emergency and Evacuation Radios ($50,000) and to the Peace Corps for selected physical security upgrades ($50,000).

II. OVERSEAS TECHNICAL SECURITY SUPPORT: $5,840,000

ELECTRONIC SECURITY EQUIPMENT ($2,000,000)

Approximately 60% of the technical security equipment, valued in excess of 100 million dollars and installed at overseas locations, was purchased between 1986 and 1988 using "Inman" funds. DS plans to use the funds approved to replace 80 aging, closed circuit television (CCTV) and alarm systems at critical and high threat posts.

Tests are currently being conducted on systems compatible with existing equipment. The selection and award of contracts is expected to take place during the third or fourth quarter of Fiscal Year 1997.

SECURITY EQUIPMENT MAINTENANCE ($800,000)

There is an insufficient number of Security Equipment Maintenance Program (SEMP) teams to adequately maintain the multi-million dollar inventory of electronic equipment installed at critical and high technical threat posts.

DS plans to increase the number of teams from 8 to 10 as of March 15, 1997, and authorize the hiring of contract U.S. citizen personnel, residing overseas, to perform maintenance on security systems under the direction of the regional Security Engineering Officers. This additional labor effort will allow reduction of the length of time between maintenance visits to critical and high threat posts from 10 months to 8 months.

SEABEES/ENGINEERING SUPPORT ($1,200,000)

Additional Seabee and Security Officer engineering support is required in several areas. First, it is necessary to restore $500,000 in temporary duty travel funds to meet continuing and new requirements. In addition, five Foreign Service National Personal Service Contractors costing a total of $150,000 are needed in Cairo (2), Rio de Janerio, Manila and Athens. Next, four additional Seabees at a cost of $315,000 are required in Manila (3) and Athens (l) to strengthen regional efforts in these two areas. Fourth, four vehicles costing $130,000 need to be added or replaced—two in Frankfurt and one each in Mexico City and Vienna. Finally, $105,000 is needed to restore funds for the Engineering Support program which absorbed pay increases for the Seabees.

EXPLOSIVE DETECTION EQUIPMENT ($1,840,000)

DS plans to purchase desk top explosive detection analyzers, with hand portable sample collectors, for testing at critical and high threat posts. The unit would supplement existing equipment, supporting current security procedures, to prevent bombs from being introduced into the office facilities. To explore technical capability of other explosive detection systems, DS also will procure additional systems for operational comparison.

III. MOBILE TRAINING AND EMERGENCY SECURITY: $275,000

Because of increased terrorist activity, particularly in the Persian Gulf region, six additional mobile training and emergency support teams of four persons each are needed to provide emergency security support, security awareness training and training for guards and drivers. During Fiscal Year 1997, DS plans to purchase equipment (clothing, weapons and laptop computers) for these teams ($125,000), begin training them ($100,000), and support Crisis Management Exercises training overseas provided by the Foreign Service Institute ($50,000).

IV. INFRASTRUCTURE DEFICIENCIES: $4,117,000

NIS REQUIREMENTS ($1,972,000)

There is a comprehensive need to upgrade technical security at posts in the Newly Independent States (NIS) of the former Soviet Union. A recent report of the Department's Inspector General stated that technical security requirements were the most neglected security element in these posts. Accordingly, numerous actions need to be undertaken in FY 1997 as follows: procurement of special technical security equipment for Bishkek, Tashkent, Dushanbe, and Minsk ($500,000); improved entry detection systems for 12 NIS posts ($420,000); development and installation of light radio frequency shielding throughout the NIS area ($500,000); access control and visitor screening ($60,000); other technical security equipment such as CCTVs and sensors ($70,000); and three TDY Seabees andtravel for installation ($422,000).

BUILT-IN CONFERENCE ROOMS ($240,000)

Built-in conference rooms are a low-cost risk management alternative to Modular Treated Conference Rooms to conduct classified conversations and processing at medium technical threat posts overseas. In Fiscal Year 1997, these resources will be used to provide rooms to three posts at which deteriorating conference rooms protect classified discussions and classified automated processing activities.

IMPROVED ENTRY DETECTION SYSTEMS ($450,000)

This effort will allow the purchase of 18 improved entry detection systems each year at critical, high, and medium threat posts. These devices will supplement 24-hour U.S. cleared presence at posts abroad in a cost-effective way and significantly extend coverage beyond current limits.

COUNTERMEASURES EQUIPMENT ($1,455,000)

DS plans to restore countermeasures activities which have been severely curtailed because of recent budget constraints. Specifically, DS will purchase state of the art radio frequency devices, i.e., signal analyzers and computer-controlled receivers ($450,000); new sets of detection equipment ($400,000); new suites of Tempest testing equipment ($500,000); new equipment to test classified information processing areas ($75,000); and software for safeguarding local area networks ($30,000).

V. AMERICAN SALARIES: $1,208,000

The Department will fund 65 security and counterterrorism positions in Fiscal Year 1997. Although the annualized salary cost for these positions is about $4,000,000, the Fiscal Year 1997 new hires will not be on board, on-average, until the last quarter of the fiscal year. The difference between the full year costs of $4 million and the $1.2 million Fiscal Year 1997 costs will be used to fund most of the infrastructure deficiencies detailed in section IV.

DIPLOMATIC SECURITY $1,048,000

The Department will hire 61 officers (55 special agents and 6 engineers) to support an increased effort in the Persian Gulf (53 of the positions) and elsewhere throughout the world to combat terrorism. The new positions will be distributed as follows:

— 6 Security Engineering Officers to plan and oversee the installation and maintenance of equipment for planned projects at critical and high threat posts.
— 6 Physical Security Officers to handle increased physical security projects at critical and high threat posts abroad and to conduct physical security surveys to assess terrorism vulnerability at our posts overseas.
— 24 Mobile Security Officers to form six additional teams which will allow training at each of the 125 critical and high threat posts worldwide every other year.
— 10 Protective Intelligence Officers to conduct and coordinate investigations of terrorist threats or attacks against our posts overseas.
— 15 Security Officers to increase support to posts in the Persian Gulf and Eastern Europe, including (11) overseas positions and (4) in Washington, D.C., to directly support overseas operations.

INTELLIGENCE AND RESEARCH $160,000

The Department will fund four counterterrorism positions within she Bureau of Intelligence and Research (INR). The additional positions increase the Department's overall counterterrorism and diplomatic security capacity, and help the Department recognize areas of increased terrorist activity before major security issues arise. These positions improve counterterrorism coordination, and increase analytical capability for the Middle East, South Asia, and in areas of international crime (a

growing component of the fight against terrorism). These positions complement the diplomatic security position increases, and help to provide comprehensive coverage on counterterrorism and security issues.

RESPONSES OF MR. KENNEDY TO QUESTIONS ASKED BY CHAIRMAN HELMS

Question. Are you aware that numerous American businessmen with prior government service have been denied visas to visit or conduct business in Russia based upon false charges that they are engaged in espionage?

Answer. The Russian Government has denied entry permission to several individuals we are aware of on the grounds that, as former employees of U.S. intelligence agencies who had previously served in Russia or the Soviet Union, they were responsible for actions against Russian interests. We are not aware of any individuals to whom the Russians have denied entry permission on these grounds who were not former employees of U.S. intelligence agencies who previously served in Moscow or elsewhere in the former Soviet Union. For some time until October 1996, we assumed that such denial of entry permission to former U.S. intelligence officials was Russian policy. The Russian Government specifically affirmed it to us in the course of discussions following the October 1996 U.S. arrest of former KGB officer Vladimir Galkin upon his arrival at JFK International Airport. The Russians protested that their practice is to deny admission to former U.S. intelligence officials—not to admit them and expose them to the possibility of arrest.

Question. What is the State Department doing to rectify this unfair treatment of U.S. citizens who otherwise served our nation with honor and distinction during the Cold War?

Answer. The Russian Foreign Ministry has noted that, in analogous situations, the U.S. would either deny entry permission or admit the individuals subject to possible arrest for violation of the Espionage Act. In consultation with U.S. intelligence agencies, the State Department has raised, on a case-by-case basis with the Russian Foreign Ministry, the situations of former U.S. intelligence of officials who have been denied Russian visas or entry permission.

Question. What steps has the State Department taken to ensure that all equivalent Russian visa applications are denied on a reciprocal basis?

Answer. All applicants related to the Russian intelligence gathering community are reviewed individually under INA 212(a) (3) (i). That section renders inadmissable "any alien who a consular officer of the Attorney General knows, or has reasonable ground to believe, seeks to enter the United States to engage in solely, principally, or incidentally in.... (i) any activity (I) to violate any law of the United States relating to espionage or sabotage or (II) to violate or evade any law prohibiting the export from the United States of goods, technology, sensitive information...." No requirement of reciprocal treatment is imposed by the provisions of the INA in this regard.

Question. Will you support legislation in the Foreign Relations Committee permanently prohibiting the issuance of a United States visa to all active or retired Russian intelligence officials?

Answer. We do not believe such legislation is appropriate or necessary. INA 212(a) (3) (i) provides the Attorney General the authority to render inadmissible "any alien who a consular officer of the Attorney General knows, or has reasonable ground to believe, seeks to enter the United States to engage in solely, principally, or incidentally in .... (i) any activity (I) to violate any law of the United States relating to espionage or sabotage or (II) to violate or evade any law prohibiting the export from the United States of goods, technology, sensitive information...." We believe this legislation is effective. We believe that categorical and binding legislation would create significant difficulties for important U.S. foreign policy interests. We would be prepared, along with the intelligence agencies, to discuss this matter further in a classified format.

RESPONSES OF MR. KENNEDY TO QUESTIONS ASKED BY SENATOR GRAMS

1. STATE DEPARTMENT EMPLOYEES

Question. 1. Please detail the total number of people who are currently employed worldwide by the U.S. State Department in any capacity, including (but not limited

to) Foreign Service, civil Service, foreign nationals, part-time and temporary employees, and contractors. Please also provide a breakdown by type of employee.

Answer. The Department of State employs 20,971 Full-time Permanent and 1,444 Part-time, Temporary employees. In addition, 15,594 people are employed as Contractors and Personal Service Contractors.

Full-time Permanent Employee	
Foreign Service	7,936
Civil Service	5,146
Foreign Nationals	7,889
Sub-Total	20,971
Part-Time/Temporary	1,444
Contractor Personnel	
Contractors [1] (Domestic)	3,594
PSC—Overseas [2]	12,000
Sub-total	15,594
Grand Total	38,009

[1] The number of domestic contractors represents data collected in 1995 Contractor survey.
[2] PSCs is the latest estimate based on regional surveys.

Question. 2. OMB Budget Projections In July 1995, the Office of Management and Budget recommended reducing funding for the State Department to $2.5 billion by the year 2000—totaling a 7 percent decline in constant dollars from 1995 appropriated levels. The FY98 budget request of $2.7 billion represents a reversal of this trend.

- What are the current budget projections for the State Department's budget in the year 2000?

Answer. The current budget authority projection for the State Department in the year 2000 is $2.7 billion—essentially a straight-line projection from our FY 1998 budget request. This projection is consistent with the President's plan to balance the budget.

The Department plans to sustain Department operations within these budget authority levels by implementing the key management initiatives we are championing in our FY 1998 budget request including ICASS cost sharing arrangements with other agencies, the user fee retention proposal, logistics reengineering, and asset management.

As part of each annual budget process, the Department will refine these out year budget projections and work within the Administration's overall budget framework to ensure that high priority Department initiatives are identified and included for funding in future budget submissions.

Question 3. A November 1966 GAO report found that implementation of the State Department's Strategic Management Initiative, tasked with identifying ways to increase productivity and improve management in the State Department, had stalled, partly because the State Department resisted setting funding priorities among its functions.

- Please assess the status of the Strategic Management Initiative. What cost savings have been achieved to date?

Answer. The Strategic Management Initiative (SMI) identified recommendations for large and small resource savings. In addition to identifying ways to increase productivity and improve management, the SMI process validated the apportionment of reductions the Department had planned in order to live within its FY 1996 appropriation levels. Those reductions were in fact assessed among the Department's programs and operations on the basis of policy and management priorities. Indeed, much of the Department's ability to achieve its downsizing mandate over the past two years can be attributed to our internal SMI process and other re-engineering efforts. For example, from December, 1993, to October, 1996, the Department's Executive Secretariat staffing level decreased by 17 positions, and the offices of 7th Floor principals decreased by four positions.

Through SMI and its predecessor efforts 115 reports were eliminated. Forty-two of these reports were part of the Scheduled Periodic Reporting Program (SPR), a program that coordinated taskings from other agencies such as the Minerals Questionnaire and the World Survey of Petroleum Product Prices. Nine reports were also simplified. We have achieved a 29% reduction in required reporting since 1993. The

Department has also sought legislative approval to eliminate an additional 24 Congressionally-mandated reports.

The Department has also reduced internal regulations by 64% (approximately 4,000 pages of regulations). This was accomplished principally by eliminating or simplifying regulations, and by converting them into less rigid "guidelines" for publication in the Foreign Affairs Handbook.

Question 4. Rethinking The Overseas Operating Structure. An August 1996 report by the General Accounting Office (GAO) recommended that the State Department fundamentally rethink the way it does business in order to increase efficiency and reduce operating costs. GAO recommended that the State Department rethink its overseas locations in countries where the United States has limited interests.

- What studies has the State Department undertaken to reduce costs in this area?
- Where will downsizing occur in Fiscal Year 1998?

A March 1996 GAO report recommended that each embassy establish a formal management improvement program to ensure sound management practices by documenting problems and monitoring corrective actions.

- What, if any, efforts have been made to date to establish such a program?

Answer. While the August 1996 GAO report (GAO/NSIAD-96-124) entitled "State Department-Options for Addressing Possible Budget Reductions" offers an excellent and detailed exposition of the principal role played by the Department of State in advancing the foreign policy and commercial interests of the nation, as well as in protecting our citizens abroad, it fails to recognize the scope of the Department's downsizing efforts.

We believe that the United States is best served by maintaining a presence in every country with which it has diplomatic relations. We do not agree with the GAO's contention that the notion of "universality" is an anachronistic relic of the Cold War. With the breakup of the Soviet Union and the increasing importance of multilateral institutions and global problems such as environmental degradation, narcotics trafficking, and international terrorism, it is critical that the United States—as the world's only superpower—remain globally engaged. This does not mean that we need a large, full-service embassy in every country, but it does mean maintaining universality of diplomatic representation.

The GAO's argument against "universality" also fails to recognize the fact that Americans are traveling abroad to a greater extent than ever before and thus have a greater need for consular services. For example, the closure of our embassy in Moroni complicated immensely our efforts at providing consular assistance to the Americans killed and injured in last November's hijacking and ensuing crash of an Ethiopian Airways aircraft in the Comoros Islands. The GAO report also did not accord any weight to the fact that foreign visitors, who spend significant sums of money while in the United States, require visas issued by the Department of State to enter this country.

Lastly, the authors of the GAO report did not mention the fact that other U.S. Government agencies usually require an embassy or consulate as a platform from which to conduct their business abroad.

With respect to the question of downsizing in fiscal year 1998, the Department does not envision any additional overseas post closings next fiscal year. We will, however, be guided by the Overseas Staffing Model to ensure that our posts are staffed in the consular and administrative areas in a manner consistent with objective workload data and in the political and economic areas on the basis of our bilateral, regional, and global priorities.

Concerning the March 1996 GAO report (GAO/NSIAD-96-1) entitled "State Department-Actions Needed to Improve Embassy Management" and its advocacy of embassy-specific management improvement programs, the Department continues to believe that the Mission Program Plan (MPP) is the most appropriate means to improve embassy management operations and address material weaknesses in administrative areas at our overseas posts. Both bureau and post management make use of this important planning tool to bolster the management practices of individual posts.

Lastly, it is important to underscore the fact that the International Cooperative Administrative Support Services (ICASS) system will become fully operational with the onset of fiscal year 1998. ICASS is a completely new system to manage and fund the administrative support provided to agencies of the U.S. Government operating at our Foreign Service missions abroad. Under ICASS, other agencies will assume their fair share of a wide array of administrative support services which, heretofore, have been provided by the Department. Local ICASS councils established at our

overseas posts will ensure that the costs of these services will be distributed equitably and in a transparent fashion. Since ICASS is a system which is customer driven, we believe that it will also result in qualitative improvements in the administrative services provided at our diplomatic and consular missions, and, at the same time, provide them at the lowest cost possible.

Question 5. Information Resources Management Plan

A $2.7 billion five year information resources management (IRM) plan to invest in and modernize technology infrastructure is underway at the State Department, extending from 1997 to 2001.

How will the Administration adapt the principles of its five year technology infrastructure modernization plan into a system that adapts to changing technology more readily and within budgetary limitations?

What studies have been done to determine employment modifications and staff level changes as a result of the technological modernization underway at the State Department? What studies have been done to reorganize the management structure given this changing technology?

To implement the Information Resources Management Plan, the Administration employs more than 2,000 people. Does the Administration anticipate a reduction in force at the conclusion of the five year plan?

Answer. At the heart of the five year technology infrastructure modernization plan is the design and implementation of an information technology architecture that is predicated on established industry, or open, standards. These standards are conducive to interoperatiblity and the use of commercial software applications. We will be able to evolve or maintain existing information technology while acquiring new information technology. For example, our deployment of modernized infrastructure at posts worldwide will establish the base technology for our migration to open systems based on a Logical Modernization Approach (ALMA) which enables newer technologies to coexist with older technology until such time that we can afford to replace it. Life cycle management is a further feature of the modernization plan. We will periodically replenish our technology base in order to meet the business requirements of the Department. Reliance on open standards provides flexibility and a cost effective operating environment.

We can not say at this time whether there will be fewer or greater numbers of IRM personnel at the end of the five year plan. The number will ultimately depend on how we answer questions like whether particular functions need to be done, whether operating processes can be re-engineered to advantage and how they can be improved with information technology, or whether work can be done better by someone else. As we work through these questions we will be guided by GAO's analysis of the best practices, and *A Guide for Evaluating IT Investments* which OMB, in collaboration with GAO, prepared.

Another important aspect of this question is retraining our staff for the jobs that come about as the result of the introduction of information technology. An interagency group chaired by State's Chief Information Officer recently identified the core competencies generally required for sound information resources management. We will take advantage of this work in developing our training and education programs. We recently consolidated information technology training by establishing the School of Applied Information Technology at the National Foreign Affairs Training Center. The School will conduct advanced training for our Information Management Specialists, so that they can maintain or update their skills, and offer training to our entire workforce to enable it to use the newer technologies.

We recognize the magnitude of our information technology challenge and have realigned our management structure to ensure effective policy focus and oversight. The Department appointed a chief information Officer (CIO) in 1996. The CIO has responsibility to oversee the establishment and promulgation of policies, plans and programs to ensure information resources are designed, acquired, operated, maintained, monitored and evaluated so as to support the efficient, cost-effective and timely achievement of strategic Department missions.

Further, to both broaden senior management involvement in information technology issues and strengthen the process for approving and managing investments in technology, we established an IRM Program Board. comprised of twelve senior Department officials, and chaired by the CIO, it advises the Under Secretary for Management on IRM matters generally, and approves the Department's IRM Strategic Plan, reviews, recommends, and prioritizes for consideration by the Under Secretary IRM acquisitions whose life cycle costs are under $30 million, and reviews and approves or disapproves program implementation at key decision points.

Finally, at the beginning of 1997 we reorganized the Department's Office of Information Management around core competencies. The goal is to reduce bureaucratic

layers, promote efficiency and effectiveness, apply lifecycle management methodologies, and encourage teamwork and creativity. This reorganization has positioned us to utilize more efficiently the dramatic changes in technology and to be more responsive in supporting America's diplomacy in the 21st century.

User Fees

Question. During testimony before the Subcommittee on International Operations, you testified that fee-setting for passports, visas, and immigration documents would be determined using a "fully loaded cost of service" calculation, including such costs as rent and electricity.

- What method is currently used to determine the fees? Is it a "fully loaded cost of service" calculation?
- Please provide the Committee with the regulations regarding fee setting?
- Please detail the prices currently charged for documents that would fall under the proposed indirect appropriation? What are the projected prices in FY98?
- What procedure would be used to increase fees on these documents under your proposed authorization legislation?
- Please list the other user fee programs the Administration is proposing for the FY98 budget?

Answer. The Office of Management and Budget Circular A-25 as revised July 8, 1993, establishes guidelines for a biennial assessment of fees including those charged for Government-provided services. Circular A-25 states that user charges will be set at a level sufficient to recover the full cost to the Federal Government of providing a service. In determining the full cost, all direct and indirect costs to any part of the Federal Government of providing the services are to be included in the proposed fee, including:

- Direct and indirect personnel costs
- Physical overhead, consulting, and other indirect costs (including material and supply costs, utilities, insurance, travel, and rents)
- Depreciation of equipment
- Management and supervisory costs
- Costs of enforcement, collection, research, establishment of standards, and regulation.

User fees, as determined using the OMB guidelines, are instituted through the promulgation of regulations or through submission of legislation when there are statutory prohibitions or limitations on charges. Attached is the current Schedule of Fees for Consular Services as provided in the Code of Federal Regulations, Title 22, Part 22, Section 22.1. The Department is finalizing the cost of service study and determining how to restructure and streamline the current Schedule of Fees for Consular Services, and whether changes should be made to individual fees commencing in FY 1998. Any proposed changes to the current Schedule of Fees for Consular Services will be published in the Federal Register, followed by a public comment period of 30 days. After assessing public input and revising the fee schedule as necessary, a final rule will be published in the Federal Register. The Department hopes to institute the new fee schedule by October 1, 1997.

The Department is seeking permanent authority to retain MRV fees and to eliminate any cap on fee receipts which the Department can retain to finance consular operations in its authorization legislation. Because the Department's fees are based upon costs as established by a cost of service study, revenues will closely reflect actual costs.

The other user fee programs the Administration is proposing are contained in the attached section of the Analytical Perspectives of the FY 1998 President's Budget.

Item No.	Fee
34. Recording of bill of sale of vessel purchased abroad, taking of application for provisional certificate or registration or certificate of American ownership, and investigation	80.00
35. Issuance of provisional certificate of registry or certificate of American ownership	60.00
36. Services under this tariff (unless designated "no exceptions") when performed for American vessels or for American seamen (22 U.S.C. 1186)	No fee.
(Item Nos. 37 through 44 vacant.)	
Notarial Services and Authentications	
45. Notarial services:	
(a) Administering an oath and certificate thereof	10.00
(b) Taking the acknowledgement of the execution of a document, and certificate thereof	10.00
(c) Certifying under official seal that a copy or extract made from an official or a private document is a true copy. For certifying each copy of each page	10.00
(d) Certifying to official character of a foreign notary or other official (i.e., authenticating a document)	10.00
(e) For affidavit of petitioner or his agent on documents or evidence to be presented to the Federal Government	10.00
(f) Authenticating a Federal, State or Territorial seal, or certifying to the official status of an officer of the United States Department of State or of a foreign diplomatic or consular officer accredited to or recognized by the United States Government, or any document submitted to the Department for that purpose	10.00
46. Noting of a negotiable instrument for want of acceptance or payment, certifying to protest and giving notice to issuer and endorsers when requested to do so	20.00
(Item Nos. 47 through 57 vacant.)	
58. Services under the heading, "Notarial Services and Authentications" when rendered:	
(a) In connection with the execution of forms or documents (except those related to applications for passports or immigrant visas) required by and to be presented to any department or agency of the Federal Government	No fee.
(b) In connection with the assignment and transfer of United States Bonds or other Federal financial obligations or execution of powers of attorney therefor to collect interest thereon	Do.
(c) In connection with the execution of forms or documents required by and to be presented to the States and their subdivisions, the District of Columbia, or any of the territories or possessions of the United States	Do.
(d) In the execution of tax returns for filing with the Federal or State Governments or political subdivisions thereof	Do.
(e) To claimants and beneficiaries and their witnesses, in connection with Federal, State and municipal allotment, pension, retirement, insurance, medical compensation, or like benefits	Do.
(f) To American citizens, while outside the United States, in preparation of ballots to be used in any primary, general or other public elections in the United States or in territories under their jurisdiction	Do.
(g) For official non-commercial use by a foreign government or by an international agency of which the Government of the United States is a member	Do.
(h) To an official of a foreign government in circumstance where furnishing the service is an appropriate or reciprocal courtesy	Do.
(i) To U.S. Government personnel and Peace Corps volunteers or their dependents officially stationed or traveling in a foreign country	Do.
59. Affidavit on preparation and packing of remains	Do.
60. Consular mortuary certificate	Do.
(Item Nos. 61 through 65 vacant.)	
66. Executing commissions to take testimony in connection with foreign documents for use in criminal cases when the commission is accompanied by an order of Federal court on behalf of an indigent party as contemplated by 18 U.S.C. 3495	Do.
67. Providing seal and certificate for return of letters rogatory executed by foreign officials	32.00

Item No.	Fee
(Item No. 68 vacant.)	
Services Relating to the Taking of Evidence	
69. In taking depositions or executing commissions to take testimony:	
(a) For the services of a diplomatic or consular officer, per hour or fraction thereof	140.00
(b) For the services, if required, of a staff member of the Foreign Service as interpreter, stenographer or typist per hour or fractions thereof	65.00
[Services of (a) and (b) above are exempt from charges of Item 93, but not of Item 94.]	
Decedents and Decedents' Estates	
70. Taking into possession under 22 U.S.C. 1175 the personal estate of any citizen who shall die within the limits of a consular district, and arranging for inventory, sale and final disposition thereof according to law	No fee.
71. Services as described under Item No. 70 above when performed in the case of a deceased employee of the United States	Do.
72. For placing or removing official seal on estates of decedents; for disbursing funds supplied by relatives and others; for forwarding to legal representative or other authorized person of securities and other instruments not negotiated (or not negotiable) by the consular officer, or evidence of bank deposits of the decedent; or for releasing on the spot against memorandum receipt and without occasion either for safekeeping on official accountability or for consular inventory and appraisal, to the legal representative or other authorized person in the country, or personal property taken into nominal possession for the explicit purpose of transfer of custody	Do.
73. Arrangements for shipping or other disposition of remains	Do.
(Item No. 74 vacant.)	
Copying and Recording	
75. For typing a copy of a document or extract of a document. (For each 200 words or part thereof)	6.00
76. For photocopying or otherwise duplicating a document, per copy of each page	.25
(This fee does not apply to such customary activities as issuance of copies of records: (1) From supplies kept for distribution, such as press releases and information leaflets; (2) as part of normal and generally reciprocal services performed by the post's library or the library of the Department at the request of similar agencies or institutions; or (3) in lieu of or as exclosures to letters with the purpose of saving costs in preparing mail.)	
(Item Nos. 77 through 81 vacant.)	
Examination Services	
82. Supervising or proctoring an examination at the request of an agency or instrumentality of the Federal or a State Government by a consular or other officer, including completion of a certificate without seal. (For each hour or fraction thereof, unless the cost is reimbursable to the Department of State by an agency or instrumentality of the Federal or a State government; (Service exempt from charges of Item 93, but not of Item 94)	140.00
Exemption for Federal Agencies and Corporations	
83. Any and all services (unless above designated "No exceptions") performed for the official use of the Government of the United States or of any corporation in which the Federal Government of the United States or its representative shall own the entire outstanding capital stock	No fee.
Other Consular Services	
84. Preparing and sending Interested Party Messages for the primary benefit of nongovernment individuals, organizations, or groups:	
(a) From a Foreign Service post to the Department of State	30.00
(b) From Department of State to a Foreign Service post	30.00
(c) From a Foreign Service post to another Foreign Service post	30.00
85. Making an Interested Party toll telephone call (See bracketed instruction on collections under Item 94)	Cost

Item No.	Fee
(Item Nos. 86 through 90 vacant.)	
91. Collection of fees by a Foreign Service post for services performed by Department of State offices within the United States under this Schedule of Fees; services performed under 22 CFR part 614 (Freedom of Information Services)	No fee.
92. Setting up and maintaining a trust account for one year or less to transfer funds to, or in behalf of, an American in need in a foreign country	15.00
Surcharges	
93. Surcharges for services rendered away from office or after duty hours in a foreign country are required for all "Fee" services listed above when performed at the request of an interested party unless specifically exempted, but are not required for "No Fee" services nor for instances of common disaster (i.e., shipwrecks, air crashes, etc.) or for evacuations. However, whether employees can be made available to perform duties away from office or after hours will be determined by the Consul General or the supervising consular officer, after considering workload priorities for the staff concerned. The following surcharges, when required, are added to regular fees:	
(1) American employee	35.00
(2) Foreign Service National employee	20.00
Transportation and Other Expenses	
94. Transportation and other expenses necessarily being incurred by officer or other employees of U.S. passport Agencies or American Consular Posts in foreign countries shall be collected on an estimated cost basis from the persons requesting the performance of "Fee" services listed above unless specifically exempted. Transportation and other expenses may also be collected for "No Fee" or any other consular services when the Consul General, the supervising consular officer, or the Passport Agency Director concerned determines that collections for these purposes are appropriate and necessary. For example: the service of assisting in the recovery of lost or stolen vehicles, boats or planes may call for coverage of such expenses; or special estate settlement, handling or disposition services requested by the next of kin or legal representative of the decedent may require unusual travel or other special expenses	Cost.
[Collections under Item 85 and Item 94 shall not be considered as part of the official fees but shall be recorded as refunds to the post allotment and accounted for as such. If there is uncertainty as to the extent or timing of expenses, a trust account per Item 92 above, may be established with payment(s) made as performance of the service progresses.]	
95. Return check processing fee	25.00

[56 FR 55813, Oct. 30, 1991, as amended at 59 FR 25324, May 16, 1994; 59 FR 48999, Sept. 26, 1994; 60 FR 16047, Mar. 29, 1995]

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ANALYTICAL PERSPECTIVES

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 1998

4. USER FEES AND OTHER COLLECTIONS

In addition to collecting taxes and other governmental receipts by the exercise of its sovereign powers, the Federal Government earns income from its various business-type activities. Examples of this income include the sale of postage stamps and electricity, the collection of fees for admittance to national parks, premiums for deposit insurance, and rents and royalties for the right to extract oil from the Outer Continental shelf. Because these collections stem from business-type activities, as opposed to exercise of sovereign powers, they are subtracted from gross outlays rather than added to the taxes and other governmental receipts discussed in the previous chapter. Because these collections reduce outlays, they are called "offsetting collections." The purpose of this treatment is to produce budget totals for receipts, outlays, and budget authority in terms of the amount of resources allocated governmentally, through collective political choice rather than through the market.

Offsetting collections are classified into two major categories: offsetting receipts, which are deposited in receipt accounts; and offsetting collections credited to appropriations (expenditure) accounts, which are deposited directly in these accounts and usually can be spent without further action by the Congress. Both categories include collections from other accounts within the Government as well as the public. Chapter 24, "Budget System and Concepts," explains the budgetary treatment of these collections more fully.

The term "user fee" is not a separate budget category for collections. It is a general term referring to fees charged to users directly availing themselves of, or subject to, a government service, program, or activity, in order to cover the government's costs. Depending primarily on whether the user charge is based on the Government's sovereign power or business-type activity, it may be classified as a governmental receipt or an offsetting collection.

As shown in Table 4–1, total offsetting collections from the public (including those proposed in this budget) are estimated to be $209.1 billion 1998. This is only 13 percent as large as the governmental receipts discussed in the previous chapter. Table 4–1 divides this total between offsetting receipts and offsetting collections credited to appropriations accounts and shows major subcategories of each. Table 4–3 provides more detail for offsetting receipts collected from the public and offsetting receipts collected from other accounts within the Government.

The budget contains a variety of user fee and other collections proposals that would yield $1.6 billion in 1998 and $47.3 billion from 1998 through 2002. In addition, the Administration proposes dedicating $1.1 billion of existing collections in 1998, and $5.0 billion from 1998 through 2002 to discretionary spending. These proposals establish, increase, or extend fees in order to recover more of the costs of providing government services. Table 4–2 splits the proposals between discretionary and mandatory categories for the appropriate

Table 4–1. OFFSETTING COLLECTIONS FROM THE PUBLIC

(In millions of dollars)

Type	1996 actual	Estimate	
		1997	1998
Collections deposited in receipt accounts:			
Medicare premiums	20,038	20,293	21,772
Military assistance trust fund property sales	14,747	13,769	13,400
Outer Continental Shelf payments, naval petroleum reserve lease and other undistributed offsetting receipts	3,742	4,152	9,817
Spectrum auction proceeds, undistributed	342	7,961	11,459
Sale of property and services, interest income and all other collections deposited in receipt accounts	20,139	23,401	26,194
Subtotal, collections from the public deposited in receipt accounts	58,008	69,567	82,642
Collections credited to appropriations accounts:			
Postal Service Stamp sales and other collections	56,477	56,801	58,533
Deposit insurance funds	10,320	12,363	4,524
Tennessee Valley Authority and Power Administration collections	9,440	6,086	9,284
Commodity Credit Corporation loan repayments and other collections	7,360	7,056	8,154
Other loan repayments	7,867	7,195	6,296
Loan guaranty and other insurance premiums, interest income and all other collections credited to appropriations accounts	46,927	43,529	39,661
Subtotal, collections from the public credited to appropriation accounts	137,391	135,040	126,452
Offsetting collections from the public	196,399	204,607	209,094
Offsetting collections from the public excluding off-budget Postal Service collections	140,922	147,806	150,561

scoring under the Budget Enforcement Act of 1990 (BEA). It includes user fees classified as offsetting collections and governmental receipts. The budget includes several specific proposals to fund discretionary spending with existing or new user fees that are governmental or offsetting receipts. Legislation will be proposed to authorize the fees and, upon enactment of the authorization, a budget amendment to the current appropriations language will be proposed to make the fees available for expenditure. Because the current requirements of the Budget Enforcement Act of 1990 make it difficult to fund discretionary programs with receipts not authorized in appropriations acts, the Administration is proposing a change in the requirements to facilitate enactment of such proposals.

Table 4–2. PROPOSED USER FEES AND OTHER COLLECTIONS

(In millions of dollars)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
User fees:						
Discretionary fee proposals:						
New and increased fees:						
Department of Agriculture:						
Food Safety and Inspection Service—New meat, poultry, and eggs inspection fees	390	390	390	390	390	1,950
Animal and Plant Health Inspection Service—Establish new fees	10	10	10	10	10	50
Grain Inspection, Packers and Stockyards Administration—New standardization and licensing fees	16	19	19	19	19	92
Department of Transportation:						
Federal Railroad Administration—Extend railroad safety inspection fees	60	60	60	60	60	300
Surface Transportation Board—New fees to offset expenses	13	14	14	14	14	69
Department of Veterans Affairs—Veterans Health Administration:						
Medical care collections—extend expiring provisions	123	362	394	421	451	1,751
Social Security Administration:						
Increase user fees for SSA to administer State supplementation of SSI benefits to $7.25	40	70	80	80	90	360
Army Corps of Engineers:						
Increase wetlands dredging permit application fees	7	14	14	14	14	63
Federal Emergency Management Agency:						
Extend fee to cover 100% of radiological emergency preparedness program	12	12	12	12	12	60
National Capital Planning Commission:						
Establish Geographic Information System fees	*	*	*	*	*	*
Nuclear Regulatory Commission:						
Extend nuclear facility fees	—	310	310	310	310	1,240
Subtotal, new and increased discretionary user fees	671	1,261	1,303	1,330	1,370	5,935
Existing mandatory fees reclassified as discretionary:						
Department of Veterans Affairs—Veterans Health Administration:						
Medical care current law collections	468	308	355	404	452	1,987
Governmental receipts dedicated to discretionary spending:						
New and increased fees:						
Department of Health and Human Services—Food and Drug Administration:						
Extend prescription drug user fees; establish new fees for medical device reviews, import inspections, and other FDA activities	237	252	267	282	297	1,335
Department of Labor—Employment and Training Administration:						
New alien labor certification user fee charged to employers	25	50	50	50	50	225
Department of Transportation:						
Federal Aviation Administration—establish cost-based fee system	300	8,734	8,862	9,089	9,342	36,327
National Transportation Safety Board:						
New accident investigation user fees	6	6	6	6	6	30
Subtotal, new and increased governmental receipts dedicated to discretionary spending	568	9,042	9,185	9,427	9,695	37,927
Existing governmental receipts dedicated to discretionary spending:						
Department of State:						
Immigration, passport and other fees	455	455	455	455	455	2,275
Machine readable visa fee	140	140	140	140	140	700
Subtotal, current law amounts dedicated to discretionary	595	595	595	595	595	2,975
Mandatory fee proposals:						
New and increased fees:						
Department of Agriculture—Agricultural Marketing Service:						
Recover costs for oversight of marketing agreements and orders	10	11	11	11	11	54
Department of Commerce:						
Patent and Trademark Office—Extend patent surcharge	—	119	119	119	119	476
Department of Health and Human Services:						
Health Care Financing Administration—New Medicare initial survey and certification fees (governmental receipt)	10	10	10	10	10	50

Table 4–2. PROPOSED USER FEES AND OTHER COLLECTIONS—Continued

(In millions of dollars)

	1998	1999	2000	2001	2002	1998–2002
Department of the Interior:						
Bureau of Land Management:						
Extend and index hardrock mining holding fees on public lands	1	32	33	34	35	135
Establish hardrock mining royalties on public lands (5% on net-smelter return)	—	42	63	35	35	175
National Park Service:						
Increase Hetch Hetchy Dam rental payments	1	1	1	1	1	5
Extend demonstration authority to collect recreation and related fees—(also affects Fish and Wildlife Service, Bureau of Land Management and Forest Service)	—	—	77	79	87	243
Establish Everglades sugar assessment	35	35	35	35	35	175
Department of Justice/Federal Trade Commission:						
Increase Hart-Scott-Rodino merger filing fees	70	70	70	70	70	350
Department of Transportation—Coast Guard:						
Extend vessel tonnage fees	—	62	62	62	62	248
Department of the Treasury—Financial Management Service:						
Establish fee on vendors for cost of payments by paper check	15	10	5	5	5	40
Department of Veterans Affairs—Veterans Benefits Administration:						
Conform fees for non-veterans in the home loan program to match Federal Housing Administration fees	26	26	26	26	27	131
Extend provisions that maintain higher loan fees and reduce resale losses on foreclosed properties	—	204	198	197	192	791
Federal Deposit Insurance Corporation/Federal Reserve:						
New examination fees for FDIC-insured banks and bank holding companies:						
Bank Insurance Fund—Collections net of premium reduction	79	82	-161	—	—	—
Federal Reserve—Collections (governmental receipt)	96	100	104	109	114	523
Subtotal, new and increased mandatory user fees	343	804	653	793	803	3,396
Total, existing user fees reclassified as, or dedicated to, discretionary spending	1,083	903	950	998	1,047	4,982
New and increased user fees:						
Federal Aviation Administration fees	300	8,734	8,862	9,099	9,342	36,337
All other new and increased user fees	1,282	2,373	2,279	2,461	2,526	10,921
Total, new and increased user fees	1,582	11,107	11,141	11,560	11,868	47,258

* $500,000 or less

Discretionary: The following proposed fees are classified as discretionary because the Appropriations Committees are being requested to authorize the fees and make them available for expenditure. In two cases—VA medical care third party collections and SSA State Administrative fees—the fees would be included in authorizing legislation but classified as discretionary under the Administration's proposed new rule.

Department of Agriculture

Food Safety and Inspection Service.—The 1998 Budget proposes a new user fee for USDA's Food Safety and Inspection Service (FSIS). Under the proposed fee, the meat, poultry and egg industries would be required to reimburse the Federal government for the cost of the salaries and benefits and other direct costs for all in-plant inspection. This new fee is estimated to generate approximately $390 million in new, annual revenues or approximately 70 percent of the current cost of the inspection system. Although presented in the budget as discretionary offsetting collections requiring Appropriations Committee action, the Administration will propose authorizing legislation to authorize the fees and, upon enactment, a budget amendment to the current appropriations language to make the fees available for expenditure. The treatment will be consistent with that proposed for FDA user fees.

Animal and Plant Health Inspection Service (APHIS).—The budget proposes to establish five APHIS fees for certain activities:

- Fees to cover cost of providing animal welfare inspections would be charged to recipients of APHIS services such as animal research centers, humane societies, and kennels.
- Fees to cover cost of issuance of biotechnology certificates would be charged to firms that manufacture biotechnologically-derived products.
- Fees to cover cost of veterinary biologics licensing, inspection, and testing activities of medications would be paid by veterinary biologic companies.
- Fees to cover inspections to ensure that garbage fed to swine is properly cooked to avoid contamination would be charged to establishments regulated under the Swine Health Protection Act.
- Fees would be charged to users to cover the costs of the pink bollworm eradication program.

Grain Inspection, Packers and Stockyards Administration (GIPSA) licensing fees.—GIPSA will pass on to the grain industry the costs to develop, review and maintain standards used by the grain industry. In addition, an annual licensing fee would be proposed to cover costs associated with administration of the Packers and Stockyards Act. In 1998 only, annual collections would be offset by $3 million in start-up costs.

Department of Transportation

Federal Railroad Administration railroad safety inspection fee.—Legislation will be proposed to permanently extend the railroad safety inspection fees that were enacted in the Omnibus Budget Reconciliation Act of 1990. The fee would be expanded to cover hours of service and hazardous materials inspections. This fee offsets the costs incurred by the Federal Railroad Administration for inspection, enforcement, and related activities to ensure the safe operation of passenger and freight railroads. The fee expired at the end of 1995.

Surface Transportation Board fees.—The Administration proposes to create a fee mechanism to completely offset the expenses of the Surface Transportation Board (STB), the successor to the Interstate Commerce Commission (ICC). The fees would be collected from those who benefit from the continuation of the ICC functions transferred to the STB, i.e. railroads and shippers.

Department of Veterans Affairs (VA)—Veterans Health Administration

Extend medical care collections.—The Administration proposes to extend three provisions in current law that expire on September 30, 1998. VA will have the authority to: 1) charge third party insurers for service-connected veterans who are treated for their non-service connected conditions, 2) charge copayments and per diems for lower-priority veterans, and 3) extend income verification for first and third party payments. These fees are in conjunction with the Administration's proposal to allow all medical care collections to be used for medical care to improve the health care of veterans. Currently, the mandatory collections are deposited in the Treasury's general fund. Under the Administration's proposal, these offsetting collections would be classified as discretionary and would be available to the extent appropriated.

Social Security Administration (SSA)

State administrative fees.—As part of the Supplemental Security Income Program (SSI), SSA administers State supplemental payments at the State's option. For those states that choose to have SSA administer these payments, the Omnibus Budget Reconciliation Act of 1993 put in place a per payment fee for SSA's services. These offsetting receipts are deposited in the general fund of the Treasury. The current fee is $5.00 per month per payment. The Administration proposes to increase the $5.00 charge to $6.12 in 1998 and to $7.25 in 1999. The fee would be indexed to the CPI thereafter. The additional revenue would be subject to appropriation and will be used to help cover SSA's administrative costs. Under the Administration's proposed new rule, these offsetting collections would be classified as discretionary.

Army Corps of Engineers

Wetlands permit fees.—Legislation will be proposed to increase fees for the issuance of wetlands regulatory permits for commercial activities. The fees would be deposited in a special Treasury account and would be available to be used for the regulatory program to the extent provided in appropriations acts.

Federal Emergency Management Agency (FEMA)

Radiological emergency preparedness fee.—The budget includes a proposal to reauthorize FEMA's assessments on Nuclear Regulatory Commission (NRC) licensees to cover 100 percent of the cost of providing site-specific services that directly contribute to the fulfillment of emergency preparedness requirements needed for NRC licensing. The proposal would extend the authority for 1998.

National Capital Planning Commission (NCPC)

Washington Geographic Information System fees.—Legislation will be proposed to allow the National Capital Planning Commission to charge fees to cover the full costs of providing Washington Geographic Information System (WGIS) products and services to all interested public and private parties beginning in 1998. The WGIS project is a cooperative effort in the National Capital Region to capture, display and analyze geographically-based data. The fees will be credited as offsetting collections to the NCPC discretionary Salaries and Expenses account, and remain available until expended.

Nuclear Regulatory Commission (NRC)

Nuclear Regulatory Commission fees.—Under current law, the NRC must recover 100 percent of its costs from licensing, inspection and annual fees charged to its applicants and licensees through 1998. Unless the law is extended, the fee coverage requirement will revert to 33 percent of NRC costs. The Administration proposes to extend the fees at 100 percent of NRC's cost of operations through 2002. The fees are credited to the NRC expenditure accounts, and spending of the collections is subject to appropriations.

Governmental receipts dedicated to discretionary spending: The following are new or increased fees.

Department of Health and Human Services

Food and Drug Administration (FDA) activities.—The proposal seeks $237 million in reauthorized/new fees including continued collection of Prescription Drug User Fee Act fees and Mammography Quality Standards Act fees, as well as new fees for medical device reviews, animal drug approvals, import inspections, food additive petition reviews, generic/over-the-counter drug applications, and fees for postmarket surveillance of products. These fees will be governmental receipts made available in appropriations acts to fund discretionary spending under the Administration's proposed new rule.

Department of Labor—Employment and Training Administration

Alien labor certification fees.—The proposal would establish a new fee, charged to businesses, for processing of alien labor certification and attestation applications by the Labor Department. The fee proceeds would be used to offset the costs of administering the alien labor program. However, in both 1998 and 1999, regular appropriations of $41 million are required in addition to user fees to work off a large backlog of applications already in the pipeline and created primarily by appropriations cuts in 1996. These fees will be governmental receipts made available in appropriations acts to fund discretionary spending under the Administration's proposed new rule.

Department of Transportation

Coast Guard icebreaking fee.—Legislation will be proposed to establish a user fee, effective in fiscal year 1999, to recover the Coast Guard's costs of providing icebreaking services to commercial maritime carriers in the Great Lakes and the Northeast. Fishing and recreational vessels would be exempt. The fees are estimated to result in collections of approximately $25 million annually. These fees will be governmental receipts made available in appropriations acts to fund discretionary spending under the Administration's proposed new rule.

Federal Aviation Administration (FAA) fees.—In 1998, the budget proposes to collect $300 million in new aviation user fees that will recover from users of FAA's services costs that they do not currently pay under the existing system of aviation excise taxes. This proposal is an interim measure until comprehensive financial reform, based on the work of the White House Commission on Aviation Safety and Security and the National Civil Aviation Review Commission, can be achieved over the next 18 months. Beginning in 1999, the Budget assumes that the existing system of aviation excise taxes will be replaced by cost-based user fees which will be available to meet the FAA's needs. Such user fees are an important element of the Administration's effort to create a more business-like FAA. These fees will be governmental receipts made available in appropriations acts to fund discretionary spending under the Administration's proposed new rule.

National Transportation Safety Board (NTSB)

Accident investigation fees.—To offset a portion of the NTSB's growing cost of commercial aviation accident investigations, a new aviation accident recovery and investigation fee is proposed. This fee, which would be paid by commercial air carriers based on revenue flight hours of operation, would collect an estimated $6 million in 1998. These fees will be governmental receipts made available in appropriations acts to fund discretionary spending under the Administration's proposed new rule.

Existing governmental receipts proposed to fund discretionary spending:

Department of State

Immigration, passport, and other fees.—The Budget proposes to dedicate existing governmental receipts generated by consular activities toward support and improvement of State Department operations.

Machine readable visa fees.—The Budget proposes to correct the classification of existing receipts used to support the State Department's border security program. These fees were previously classified as offsetting collections; they will now be classified as governmental receipts.

Both of these fees will be governmental receipts made available in appropriations acts to fund discretionary spending under the Administration's proposed new rule.

Mandatory: The following new and increased fees are classified as mandatory because they will be included in authorizing legislation.

Department of Agriculture—Agricultural Marketing Service (AMS)

Marketing order fees.—The Administration proposes to authorize local marketing administrators to collect fees to recover AMS' cost of administering commodity marketing orders and agreements. Marketing orders help stabilize market prices for milk, fruit, and other specialty crops by prescribing certain sale, quality, and quantity guidelines. Currently, costs at the local level are financed by assessments on commodity producers and handlers, while costs of these orders at the national level are funded through appropriations. The proposal would increase the existing assessments.

Department of Commerce—Patent and Trademark Office

Extend surcharge on patent fees.—The budget proposes to extend the Patent and Trademark Office's authority to collect the patent surcharge fee through 2002. The current authority expires in 1998. The surcharge fee is paid entirely by patent applicants and holders.

Department of Health and Human Services—Health Care Financing Administration

Medicare survey and certification fee.—Legislation will be proposed to require state survey agencies to impose fees on health care providers for initial surveys required as a condition of participation in the Medicare program. The proposal will authorize states to collect and retain fees from health care providers to cover the cost of the initial surveys. The proceeds are automatically available.

Department of the Interior

Bureau of Land Management

Hardrock mining holding fees.— The proposal would extend beyond 1998, the $100 claim maintenance fee and the $25 location fee established in the 1993 Omnibus Budget Reconciliation Act. As under current law, the fees would also be adjusted annually based on the Consumer Price Index.

Hardrock mining royalty and Abandoned Hardrock Mine Reclamation Fund.— Legislation will be proposed to charge a 5 percent royalty on the net-smelter return from the production of hardrock minerals produced on Federal lands. The royalties collected will be deposited into a new reclamation fund for the environmental restoration of abandoned mine sites on Federal lands.

National Park Service

Hetch Hetchy Dam rental payments.—Legislation will be proposed to raise the annual rental payment for the use of land within Yosemite National Park by the City of San Francisco for a dam and reservoir that supplies drinking water to the City. Receipts (estimated at $600 thousand for 1998) would be available, subject to appropriation, for the annual operations of Yosemite and other national parks in California.

Parks and recreation fees.—Legislation will be proposed to authorize the National Park Service, Fish and Wildlife Service, Bureau of Land Management, and Forest Service to collect additional admission, recreation, and commercial user fees. New receipts will remain available for improvements to facilities and services. This authority would take effect when the existing demonstration fee authority expires at the end of 1999.

Everglades sugar assessment.—Legislation will be proposed to establish a marketing assessment of one cent per pound on processed cane sugar produced in Florida's Everglades Agricultural Area. Receipts will remain available for land acquisition and other activities contributing to Everglades restoration.

Department of Justice/Federal Trade Commission (FTC)

Merger filing fees.—The Administration proposes authorizing legislation to restructure the Hart-Scott-Rodino fee, which is charged to acquiring firms in mergers. The fee partially funds both the Federal Trade Commission and the Justice Department's Antitrust Division, subject to appropriation.

Department of Transportation—Coast Guard

Vessel tonnage fees.—The budget proposes to extend fees collected by the Customs Service based on the cargo-carrying capacity of a vessel entering a U.S. port. These fees were set to expire at the end of 1998. The collections are credited to the Department of Transportation to offset costs incurred by the Coast Guard for services provided to the Merchant Marine industry.

Department of the Treasury—Financial Management Service

Charge to vendors for payment by paper check.—The Administration proposes to authorize the Department of the Treasury to charge for the cost of payments to vendors by paper check. Paper checks are costly to print, mail and replace when lost or stolen. The Federal Government makes over 25 million check payments to vendors annually, or over 80 percent of all payments made for goods and services. The Debt Collection Improvement Act of 1996 mandates phase-in of electronic payments for all Federal payments by 1999, with the exception of tax refunds. This proposal institutes a fee of $1.00 for the cost of providing the service to vendors as determined in regulation by the Secretary of the Treasury. Electronic payment through commercial electronic funds transfer/direct deposit or through the use of payment cards is cheaper, faster, and more secure than payments by paper checks and will involve no charge to the vendor.

Department of Veterans Affairs—Veterans Benefits Administration

Fees for non-veterans in the home loan program.— When VA takes possession of properties resulting from defaulted loans, the homes are ultimately sold to the general public. VA finances these properties through its vendee loan program. The Administration proposes to raise the up-front fees charged on these loans to 2.25 percent—the same level that is charged on Federal Housing Administration loans.

Extend expiring home loan provisions.—The Administration proposes to permanently extend three provisions in current law that expire September 30, 1998. VA charges borrowers using VA's home loan guaranty program a two percent fee instead of 1.25 percent, 2) charges veterans who use the loan guaranty benefit more than once a funding fee of 3 percent to reduce losses, and 3) include expected resale losses when determining whether to acquire a foreclosed property or pay the guaranty.

Federal Deposit Insurance Corporation (FDIC) and Federal Reserve (Fed)

State bank examination fee.—The Administration proposes to require the FDIC and the Federal Reserve to assess fees for examinations of FDIC-insured banks and bank holding companies. The costs of such examinations are currently funded from deposit insurance premiums and Fed earnings from monetary policy activities. The FDIC fee proceeds would be used to finance the examination operation. The Fed proceeds would be transferred to Treasury annually in the form of surplus earnings.

OFFSETTING RECEIPTS

Table 4–3 itemizes all offsetting collections deposited in receipt accounts. These include payments from one part of the Government to another, called intra governmental transactions, and collections from the public.

These receipts are offset (deducted) from outlays in the Federal budget. In total, offsetting receipts are estimated at $368.6 billion in 1998.

Table 4–3. OFFSETTING RECEIPTS BY TYPE

(In millions of dollars)

Source	1996 actual	1997 estimate	1998 estimate
INTRAGOVERNMENTAL TRANSACTIONS			
On-budget receipts:			
Federal intrafund transactions:			
Distributed by agency:			
Interest from the Federal Financing Bank	6,458	4,351	3,958
Interest on Government capital in enterprises	1,815	1,442	1,581
Proposed Legislation (non-PAYGO)	.....	157	.....
Other	1,257	1,351	1,430
Total Federal intrafunds	9,530	7,301	6,969
Trust intrafund transactions:			
Distributed by agency:			
Payments to railroad retirement	3,556	3,817	3,887
Other	1	1	1
Total trust intrafunds	3,557	3,818	3,888
Total intrafund transactions	13,087	11,119	10,857
Interfund transactions:			
Distributed by agency:			
Federal fund payments to trust funds:			
Contributions to insurance programs:			
Military retirement fund	10,699	15,151	15,833
Supplementary medical insurance	61,702	59,354	63,416
Proposed Legislation (non-PAYGO)	.....	.....	14,668
Hospital insurance	4,623	4,833	4,572
Railroad social security equivalent fund	46	60	61
Rail industry pension fund	181	186	195
Civilian supplementary retirement contributions	20,362	21,215	21,587
Proposed Legislation (non-PAYGO)	.....	.....	–23
Unemployment insurance	438	612	604
Other contributions	528	440	377
Miscellaneous payments	464	725	712
Subtotal	99,063	102,576	122,002
Trust fund payments to Federal funds:			
Quinquennial adjustment for military service credits	332	.....	.....
Other	3,380	1,013	1,035
Proposed Legislation (non-PAYGO)	.....	.....	53
Subtotal	3,712	1,013	1,088
Total interfunds distributed by agency	102,775	103,589	123,090
Undistributed by agency:			
Employer share, employee retirement (on-budget) [1]:			
Civil service retirement and disability insurance	7,880	8,187	8,413
Proposed Legislation (non-PAYGO)	.....	.....	621
CSRDI from Postal Service	5,712	5,916	6,103
Hospital insurance (contribution as employer) [2]	1,860	1,875	2,007
Postal employer contributions to FHI	522	595	618
Military retirement fund	11,174	11,180	10,544
Other Federal employees retirement	111	116	122
Total employer share, employee retirement (on-budget)	27,259	27,869	28,428
Interest received by on-budget trust funds	60,869	62,812	63,002
Proposed Legislation (non-PAYGO)	.....	.....	744

Table 4–3. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

Source	1996 actual	1997 estimate	1998 estimate
Total interfund transactions undistributed by agency	86,128	90,681	92,174
Total interfund transactions	190,903	194,270	215,264
Total on-budget intragovernmental receipts	203,990	205,389	226,121
Off-budget receipts:			
Interfund transactions:			
Distributed by agency:			
Federal fund payments to trust funds:			
Old-age, survivors, and disability insurance	6,133	6,927	7,616
Undistributed by agency:			
Employer share, employee retirement (off-budget)	6,278	6,505	7,028
Interest received by off-budget trust funds	36,507	41,238	45,199
Total off-budget intragovernmental receipts:	48,918	54,670	59,843
Total intragovernmental transactions	252,908	260,059	285,964
PROPRIETARY RECEIPTS FROM THE PUBLIC			
Distributed by agency:			
Interest:			
Interest on foreign loans and deferred foreign collections	747	711	647
Interest on deposits in tax and loan accounts	757	736	750
Other interest (domestic—civil) [3]	3,430	4,795	6,153
Total interest	4,934	6,242	7,550
Royalties and rents	1,062	1,231	1,299
Proposed Legislation (PAYGO)	.....	.....	1
Sale of products:			
Sale of timber and other natural land products	567	573	517
Proposed Legislation (PAYGO)	.....	.....	–67
Sale of minerals and mineral products	530	706	289
Sale of power and other utilities	832	840	840
Other	48	39	40
Total sale of products	1,977	2,158	1,619
Fees and other charges for services and special benefits:			
Medicare premiums and other charges (trust funds)	20,038	20,293	21,983
Proposed Legislation (PAYGO)	.....	.....	–211
Nuclear waste disposal revenues	634	649	655
Veterans life insurance (trust funds)	236	256	216
Other [3]	2,004	2,162	2,072
Proposed Legislation (non-PAYGO)	.....	.....	455
Proposed Legislation (PAYGO)	.....	.....	–365
Total fees and other charges	22,912	23,360	24,805
Sale of Government property:			
Sale of land and other real property	106	92	104
Military assistance program sales (trust funds)	14,747	13,780	13,400
Other	6	26	16
Total sale of Government property	14,859	13,878	13,520
Realization upon loans and investments:			
Foreign military credit sales	661	637	535
Negative subsidies and downward reestimates	1,756	2,156	1,681
Proposed Legislation (non-PAYGO)	.....	.....	52
Proposed Legislation (PAYGO)	.....	.....	1,035
Repayment of loans to United Kingdom	106	108	110
Other	158	137	142
Total realization upon loans and investments	2,681	3,048	3,755
Recoveries and refunds [3]	2,059	2,958	3,261
Proposed Legislation (non-PAYGO)	.....	.....	176

Table 4–3. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

Source	1996 actual	1997 estimate	1998 estimate
Proposed Legislation (PAYGO)	.....	.....	555
Miscellaneous receipt accounts [3]	1,633	1,686	1,682
Proposed Legislation (PAYGO)	.....	.....	67
Total proprietary receipts from the public distributed by agency	52,117	54,583	58,290
Undistributed by agency:			
Other interest: Interest received from Outer Continental Shelf escrow account	1	.....	1,142
Rents and royalties on the Outer Continental Shelf:			
Rents and bonuses	691	778	1,095
Royalties	3,050	3,374	3,280
Sale of major assets	.....	.....	4,300
Total proprietary receipts from the public undistributed by agency	3,742	4,152	9,817
Total proprietary receipts from the public [4]	55,859	58,715	68,107
OFFSETTING GOVERNMENTAL RECEIPTS			
Distributed by agency:			
Regulatory fees	2,730	2,821	2,872
Proposed Legislation (non-PAYGO)	.....	.....	67
Proposed Legislation (PAYGO)	.....	.....	70
Other	77	70	67
Undistributed by agency:			
Spectrum auction proceeds	342	7,961	9,359
Proposed Legislation (PAYGO)	.....	.....	2,100
Total offsetting governmental receipts	3,149	10,852	14,535
Total offsetting receipts	311,916	329,626	368,606

[1] Includes provision for covered Federal civilian employees and military personnel.
[2] Interchange receipts between the social security and railroad retirement funds place the social security funds in the same position they would have been if there were no separate railroad retirement system.
[3] Includes both Federal funds and trust funds.
[4] Consists of:

	1996 actual	1997 estimate	1998 estimate
On-budget:			
Federal funds	19,678	23,325	31,606
Trust funds	36,164	35,371	36,380
Off-budget:			
Trust funds	17	19	19

SUBCHAPTER C—FEES AND FUNDS

PART 22—SCHEDULE OF FEES FOR CONSULAR SERVICES—DEPARTMENT OF STATE AND FOREIGN SERVICE

Sec.

22.1 Schedule of fees.
22.2 Requests for services in the United States.
22.3 Remittances in the United States.
22.4 Requests for services, Foreign Service.
22.5 Remittances to Foreign Service posts.
22.6 Refund of fees.
22.7 Collection and return of fees.
22.8 Effective date.

AUTHORITY: 8 U.S.C. 1182, 1351; 22 U.S.C. 211a, 214, 2651, 2658, 3921, 4219; 31 U.S.C. 9701; EO 10718, 22 FR 4632, 3 CFR, 1954–1958 Comp., p. 382; E.O. 11295, 31 FR 10603, 3 CFR, 1966–1970 Comp., p. 570.

SOURCE: 46 FR 58071, Nov. 30, 1981, unless otherwise noted.

§ 22.1 Schedule of fees.

Item No.	Fee
Passport and Citizenship Services	
1. Execution of application for passport	$10.00
2. Examination of passport application executed before a foreign official	10.00
3. Issuance of 10 year validity passport (22 U.S.C. 214)	55.00
4. Issuance of a 5 year validity passport (22 U.S.C. 214)	30.00
5. Execution of application for and issuance of passport:	
(a) To officers or employees of the United States proceeding abroad or returning to the United States in the discharge of their official duties, or members of their immediate families (22 U.S.C. 214)	No fee.
(b) To American seamen who require a passport in connection with their duties aboard an American flag vessel (22 U.S.C. 214)	Do.
(c) To widows, children, parents, brothers, or sisters of deceased members of the Armed Forces proceeding abroad to visit the graves of such members (22 U.S.C. 214)	Do.
(d) To employees of the American National Red Cross proceeding abroad as a member of the Armed Forces of the United States (10 U.S.C. 2602(c))	Do.
(e) Peace Corps Volunteers and Volunteer Leaders, who are deemed to be employees of the United States for purposes of exemption from passport fees (22 U.S.C. 2504(a))	Do.
6. Amendment to passport:	
(a) To show current or new information	Do.
(b) To correct administrative error	Do.
(c) To extend time limitation	Do.
7. Execution of application for registration	Do.
8. Execution of affidavit in regard to American birth in connection with application for passport or citizenship determination	Do.
9. Documents relating to births, marriages or deaths of American citizens abroad where reported to a Foreign Service post:	
(a) Registration of a birth of American citizen including furnishing one copy of Form FS–240 "Report of Birth Abroad of a Citizen of the United States of America"	10.00
(b) Authentication of original documents of marriage, per copy	36.00
(c) "Report of Death of an American Citizen" and sending one copy of each to legal representative and to closest known relative or relatives	No fee.
[Form DS–1350 "Certification of report of Birth" and certified copies of documents relating to births, marriages, and deaths of American citizens abroad reported to a foreign service post may be obtained from Passport Services, Correspondence Branch, Department of State, Washington, DC 20522–1750, $10.00 per copy]	10.00
10. Documents from passport files and related records (except as specified in Item 9):	
(a) For file search	15.00
(b) For duplicating by photocopy or other such means, per each copy of each page	.25

Item No.	Fee
(c) For certifying of a true copy	5.00
(d) For certifying by letter under official seal a statement or extract from passport files or a statement that no record of a passport file can be located (plus $15.00 search charge of 10(a))	5.00
11. Any service described in Item 10 when:	
(a) Required for official use by an agency of the Federal Government or any of the States or their subdivisions or of the District of Columbia, or of any of the territories and possessions of the United States	No fee.
(b) Performed in response to a subpoena or other order of a court (However, fees are chargeable when the service is for the benefit of a party in interest and a court order or subpoena is issued in an individual's behalf.)	Do.
(c) Performed in providing to a party in interest, a copy of the transcript of a hearing held before a panel, board, or other authority of the Department	Do.
12. Granting an exception under 22 CFR 53.2(h) of Travel Control Regulations	100.00
13. Instant Photo Service, where offered by a Foreign Service post for each pair of identical photographs	15.00
14. Expenditure Passport Processing Within the United States	30.00
(Item Nos. 15 through 19 vacant.)	
Visa Services for Aliens	
20. Furnishing and verification of application and issuance of immigrant visa, including duplicate copy [112-IV APPL]	170.00
21. Issuance of each immigrant visa [113-IV Issuance], [114-R IV ISS], [115-211 WAIV/ISS]	30.00
22. Furnishing and verification of application and issuance of nonimmigrant visa. (Fees prescribed in Appendices B, C, and E, Part IV, FAM, Vol. 9 of Department of State, amended from time to time)	Reciprocal.
23. Furnishing and verification of application and issuance of nonimmigrant visa to:	
(a) An alien proceeding solely in transit to and from the headquarters district of the United Nations under the provisions of section 11 of the Agreement between the United Nations and the United States of America regarding the headquarters of the United Nations (61 Stat. 756)	No fee.
(b) An official representative of a foreign government, or an international or regional organization of which the U.S. is a member	Do.
(c) An alien participating in a U.S. Government program	Do.
24. Visa or supplemental visa of alien crew list: (If Item 93 is applicable, only one surcharge shall be applied per group served on the same visit):	
(a) Up to 40 crew members	40.00
(b) 41 to 100 crew members	100.00
(c) 101 to 200 crew members	210.00
(d) Over 200 crew members	280.00
25. Processing of Application for Adversely Affected Program	25.00
26. Surcharge for processing machine readable nonimmigrant visa application	20.00
27. For the taking of fingerprints for those applicants for immigrant visas whose names are indexed in the Interstate Identification Index of the National Crime Information Center	25.00
28. For the taking of fingerprints from immigrant visa applicants pursuant to 8 U.S.C. 1182	25.00
(Item No. 29 vacant.)	
Services Relating to Vessels and Seamen	
30. Noting marine protest, when required by a master of a foreign or an undocumented vessel	16.00
31. Extending marine protest, when required by a master of a foreign or an undocumented vessel	104.00
32. Protest of a master against charterers or freighters, when required by a master or a foreign or an undocumented vessel	16.00
33. Shipment or discharge of seamen on undocumented vessel, each seaman (if item 93 is applicable, only one surcharge shall be applied per group served on the same visit)	10.00

APPENDIX 3

HEARING OF MARCH 6, 1997

UNITED STATES INFORMATION AGENCY,
WASHINGTON, DC 20547,
March 19, 1997.

TOM KLEINE
PATTI MCNERNEY
Committee on Foreign Relations,
United States Senate, Washington, DC.

DEAR TOM AND PATTI: I am pleased to forward the Agency's responses to Chairman Grams's, and Senator Feinstein's questions for the record on USIA programs.

Please note that the answers to the broadcasting questions we are forwarding were drafted by the Broadcasting Board of Governors.

Sincerely,

CAROLINE ISACCO,
ACTING DIRECTOR,
Office of Congressional and Intergovernmental Affairs.

RESPONSES OF MR. DUFFEY TO QUESTIONS ASKED BY SENATOR GRAMS

EFFECTIVENESS OF EXCHANGE PROGRAMS

Question. How does USIA determine the effectiveness of exchange programs in promoting U.S. foreign policy objectives? How is this quantified? What programs do U.S. Ambassadors and embassy personnel think are the most effective?

Answer. Ambassadors and U.S. Embassies overseas view the Fulbright and International Visitors programs—our two largest programs—as the highest priority U.S. exchange efforts supporting their missions.

USIA employs a variety of methods in evaluating its programs, including formal surveys, focus groups, site observation, and field reporting. Through these methods we gather the comments and opinions of program participants, USIA/Embassy staff overseas, cooperating program organizations, and individual and institutional American interlocutors (NGOs, businesses, professional associations, etc.). The combination and distillation of input from these groups—on a worldwide, regional and country basis—informs USIA's determination of its exchange program results.

Measuring the results of educational and professional exchanges isn't easy, particularly when dealing with young people and students, because the changes in their attitudes and values take place over a period of years rather than days or weeks. USIA, however, accepts this challenge when we ask ourselves, "Did our work make a difference?" To find answers, USIA begins with a clear understanding of its exchange program goals which are supportive of U.S. policy and the national interest. From this solid basis program analysis proceeds in conformity with the Government Performance and Results Act of 1993. USIA has identified measurable "indicators of successful program" outcomes or results. We consider the following results to be evidence of the accomplishment of our goals:

- A cadre of individuals abroad whose knowledge, skills and abilities have been positively influenced by exposure to American values, views and methods on a specific theme or issue;
- Increased U.S. knowledge and understanding of international issues and perspectives and the value of mutual understanding;
- Establishment and enhancement of long-lasting and productive relationships between U.S. and foreign individuals and institutions; and
- Expanded and improved international exchanges through the use of USIA resources to leverage support from foreign governments and the U.S. and foreign private sector/NGOs.

NIS SECONDARY SCHOOL INITIATIVE

Question. What is the status of the U.S.-Russia secondary school program? Does the decline in funding for this program reflect simple budgetary constraints or a judgment about its relative effectiveness?

Answer. The NIS Secondary School Initiative remains a key component of USIA's balanced mix of exchange and training programs in Russia and the NIS.

In FY 97, we anticipate that the NIS Secondary School Initiative will be funded at the $10 million level, with $5 million coming from Freedom Support Act (FSA) funds transferred to USIA and $5 million from USIA base funding. Reductions in available funds and relative program priority required a decrease of 29% in the secondary school program from the FY 96 level.

SHORT-TERM VS. LONG-TERM EXCHANGES

Question. How do you measure the impact of short-term versus long-term exchanges? How do you ensure that exchanges lasting only 2 or 3 weeks aren't seen as "all-expense-paid vacations to America?"

Answer. USIA exchange programs are not "all expense paid" vacations but rather rigorous, structured programs designed to meet U.S. goals and objectives.

The success of USIA exchange programs—regardless of their length—stems from a combination of careful program design and selection of U.S. and foreign participants. The selection process determines the compatibility of the participants' professional profile to stated program goals.

USIA exchanges yield both near and long-term effects. After an exchange, participants return to implement models and ideas they have been exposed to by a wide range of people with varied experiences. Over time and through such expressions and actions, the participants' professional circles and home institutions benefit from the "multiplier" effect generated by the participant. USIA program evaluations examine these effects to determine program effectiveness and achievement of stated goals, both country-specific and supportive of worldwide USG interests.

Recent examples of effectiveness in short-term USIA exchanges include the following:

- USIA uses exchange programs to foster contact between Israelis and their Arab neighbors. For example, in July 1996 USIA brought a group of environmental specialists to the United States for a month-long exchange program on environmental education. The group included an Israeli Jew and an Israeli Arab in addition to participants from the West Bank, Jordan, Egypt and Lebanon. The participants have launched a regional environmental network and remain in contact with each other.
- As the result of his participation in an International Visitor program focused on the importance of intellectual property rights protection, an Italian official undertook raids on computer software pirates.
- A participant in the Business for Russia professional internship program followed up on his hands-on entrepreneurial experience in the United States by initiating the purchase of U.S. building materials for distribution in his home region in Russia.

COMPETITIVE GRANT PROCESS

Question. The FY 97 Senate Appropriations Committee report recommended an open, competitive bidding process for all USIA exchange grant programs that ensures that small grassroots operations have an opportunity to compete for these grants. What is your response to this recommendation and what efforts has USIA made to make the grant process more competitive?

Answer. Late last year, the Director submitted a report to the Congress outlining our plan to increase competition among organizations administering the Fulbright and other USIA exchange programs. That report reiterated our commitment to the participation of a broad range of U.S. organizations, communities and groups in international exchanges.

Most USIA grants are already competed through Federal Register announcements. All Citizen Exchanges discretionary grants are made on the basis. of open competition. This year, we began to compete the administration of International Visitor multi-regional projects. And of the several dozen grants awarded annually by the Office of Academic Programs, only seven have not been regularly competed.

Our plan establishes a timetable to extend competition to other exchange program activities, including our largest grants which support administration of the Fulbright and International Visitor programs.

- Competition for the Fulbright Senior Scholar program will begin in October 1998 with competition of the Fulbright Student Program to begin in October 2000.
- In October 1997 we will begin an incremental competition of the principal International Visitors program agency grants with two of the six grants awarded every two years over a six-year period.
- In Citizens Exchanges, a segment of each core grant program will be competed beginning in October 1997.

INCREASED REQUEST FOR IV PROGRAM

Question. I noticed most exchange programs in the FY 98 budget were undergoing some level of reduction in funding with the exception of the International Visitor Program, which will receive an increase of $384,000. Why has that particular program been targeted for an increased request? How did USIA decide which exchange programs should bear the greatest impact of its $4.6 million requested reduction from FY 97 spending on exchanges?

Answer. USIA's budget reduction strategy seeks to reduce the impact on its centerpiece exchange programs: the Fulbright and IV programs.

The International Visitor Program is one of our largest and most respected exchange programs. It is one of the most important foreign policy tools that U.S. ambassadors have at their disposal. Over more than 55 years, the program has brought emerging foreign leaders in government, economics, trade, the media, labor, and other critical fields to the United States to experience our democratic way of life and to network with their professional counterparts in this country.

The IV program selection process is very effective in identifying emerging leaders, so that our investment here pays dividends for decades after the International Visitor returns home. Most participants have never been to the U.S. before, which increases the impact of their highly targeted exposure to our country.

Program participants experience this country at formative stages of their careers. They visit constituencies throughout our country and provide our citizens with the opportunity to establish lasting contacts for use in pursuit of American international goals, both governmental and private sector. Program funding is spent in communities throughout our country, not overseas. Because of the international networking opportunities the program provides to Americans, local organizations throughout the U.S. are involved in every program to ensure access to the visitors by internationally mind local citizens and organizations.

The proposed funding increase—less than 1% of the FY 97 IV program budget—will help to stabilize operating levels for this program.

STAFF REDUCTIONS

Question. USIA is in the process of eliminating 287 positions in FY 97 and its FY 98 budget plans a reduction of another 128 positions. The FY 97 Senate Appropriations Committee report recommended that USIA should concentrate further personnel reductions in support staff in Washington rather than programming staff in the field.

How are USIA's position reductions in FY 97 and FY 98 split between Washington and field staff?

Answer. The Agency has focussed its reductions on domestic operations and staff to the maximum extent possible. However, because almost 70% of the Agency's International Information Program account funds and staff are devoted directly to overseas operations, budget cuts weigh heavily on those operations. In Broadcasting Operations, where staffing is concentrated in the U.S, staff reductions are principally in the U.S.

In FY 97 and FY 98, the Agency's staff reductions are as follows:

- Domestic, 145; Overseas Americans, 50; Foreign National Employees, 220; Total, 415.

From FY 94 through FY 96, the staff reductions totaled:

- Domestic, 950; Overseas Americans, 224; Foreign National Employees, 759; Total 1,933.

TECHNOLOGY FUND

Question. What regions and populations do you expect to get the most use out of the digital library? Have you done studies by region to determine how widespread is the access to computers and the knowledge to use them?

Answer. The USIS Digital Library is designed to provide information about America to countries around the world—including Third World countries without Internet access.

The library is currently being tested as a pilot project at 12 USIS posts that represent every type of technology access, from those with full Internet connectivity to those that are less technologically advanced with limited or no Internet access.

For many posts, especially in less developed countries, Internet connectivity is either too expensive, not very reliable or does not exist. The project's new CD-ROM technology will provide access to the USIS Digital Library in these countries, and position them to use Internet resources when they gain access to that environment.

The Digital Library will also benefit the Londons and Helsinkis of the world by reducing the costs of access for these technologically-advanced posts, and allowing them to hyperlink in and out of Internet sites they find useful in their work.

The Internet is certain to grow in importance around the world over the next several years, emerging as a low-cost pathway that allows information to be more accessible and transferable.

A study just released by Nielsen Media Research reports that nearly one in four people over age 16 in the United States and Canada now use the Internet, more than twice the number of people who were online 18 months ago. The survey found that Internet usage increased from 10 percent to 23 percent, showing that the Internet is truly becoming a mass-market phenomenon, according to an Nielsen spokesman.

While the United States remains a leader in Internet usage, the lag in Internet connectivity in many countries is only 6 to 12 months in Europe. While there is little Internet connectivity within the African continent right now, several African countries are only several years away from having Internet access. Countries like Ghana, Mauritius, Cote D'Ivoire, and Zimbabwe are already connected to the World Wide Web. We see great opportunities for providing African nations access to the global information superhighway.

Finally, there is the Leland Initiative, a five-year $15-million U.S. Government effort to extend full Internet connectivity to approximately 20 African countries in order to promote sustainable development. The project will promote policy reform to reduce barriers to open connectivity. This is expected to result in affordable prices conducive to a broad expansion in computer use, and the delivery of Internet services by private sector companies like MCI and AT&T that provide access to the Internet.

TECHNOLOGY ACCOMPLISHMENTS

Question. During last week's hearing on the State Department "Administration of Foreign Affairs" budget, we spent a substantial amount of time discussing the Department's challenges in the area of information technology infrastructure. Although your requested increase focuses on communications between Washington and overseas operations, how would you assess the state of USIA's overall information technology infrastructure?

Answer. Information technology is vital to USIA for both programmatic and administrative purposes, and we have made significant progress modernizing our infrastructure. We have successfully:

- Converted from antiquated Wang systems to PC Local Area Networks worldwide;
- Made important use of the Internet both in Washington and overseas;
- Developed innovative programs and products to exploit the Internet—e.g. USIA and Embassy Home Pages, and Electronic Journals;
- Developed a number of automated applications to improve internal productivity, e.g. electronic processing of cable traffic via our CableXpress system.

We are proud of those achievements and think we may be ahead of some of our colleagues.

We are concerned about the daunting technology infrastructure challenges that remain. This infrastructure must be kept up-to-date in order for USIA to achieve its mission effectively in the digital age.

- The rapid obsolescence of hardware and software due to the accelerated product life-cycles in the industry, combined with shrinking resources, mean a constant scramble to maintain our infrastructure at a reasonable level. For example, our network operating and corporate e-mail systems are rapidly nearing the end of their life cycles, which soon will require major new investments.

- Training employees to make most effective use of the new technology is a key part of the infrastructure and it is a high priority for us. It is also a challenge for USIA because our staff is stationed worldwide.
- The "Year 2000 Problem" will require investments in hardware and software. We have underway an assessment to identify our vulnerability, remediation strategies and costs.
- Like many federal agencies, we need to modernize our financial management system, which encompasses virtually all of our administrative systems (accounting, procurement, payroll, personnel, property, etc.). These systems are old, do not meet government-wide standards, and do not meet our operational needs.

TECHNOLOGY FUNDING LEVELS

Question. Do you feel there is adequate funding in your budget request to address your information technology modernization needs?

Answer. Based on immediate needs and relative priorities, USIA's request for $7.0 million for the Technology Fund is adequate. Some of our initiatives are in early stages. The telecommunications pilot and the Year 2000 Assessment are first steps designed to gather information which would allow us to develop more precise estimates. To upgrade the Agency's telecommunication infrastructure will undoubtedly require additional investments in later years. How much will be determined by our assessment of options. Year 2000 remediation also has the potential for additional cost.

We are also continuing work on upgrading our major administrative systems and new projects in such program areas as a digital library for our overseas posts and in support of exchange of persons programs.

As originally conceived, the Technology Modernization Fund would have embraced a life-cycle replacement program for hardware, software and skills training to maintain our infrastructure. Budget realities have limited the Fund to high priority technology research and systems development.

TECHNOLOGY FUNDING TRADE OFFS

Question. Do you feel that any problems with outdated technology have been compounded because past funding that should have been prioritized for modernizing technology infrastructure was instead diverted to other programs?

Answer. USIA has made technology modernization a priority and, for the most part, has made or is making the conversion from outdated technology to modern systems. For example, senior management recognized the need and reprogrammed the funds on an ad hoc basis to respond to the challenge of Wang replacement and PC upgrade. Nevertheless, because of the pace of change in this field and USIA's dependence on Technology, the need to stay current is a continuing concern.

DIGITAL VIDEO CONFERENCING

Question. USIA's FY 98 budget also requests funding to expand digital video conferencing capabilities. Have there been any studies to determine how much money USIA might save in travel costs through increased reliance on such capabilities?

Answer. While we are advancing the use of DVCs in our daily programming, face-to-face exchanges will never be replaced as the most effective means of dialogue.

USIA has not conducted any specific studies of the tradeoffs between digital video conferencing (DVC) and speaker travel. However, we have cut back our annual travel costs, in part because DVCs are usually cheaper than the combined expenses of round-trip air fares, per diem, and lodging. To cite some specific examples:

- A one-hour DVC to Stockholm runs approximately $600 versus round trip air fare of $980, a figure that excludes per diem and lodging.
- A four-hour DVC to Brussels using two ISDN lines for higher broadcast quality would run $1,700, more than the air fare of $950, but again without factoring in lodging, staff support, and other expenses.
- For Bangkok, a six-line DVC feed for one hour runs $750, compared to round trip air fare of $2,180.

Equally important, DVCs enable a broader range of people to interact with foreign audiences than would ever be the case with traveling speakers. Busy officials and noted academics are frequently unavailable for foreign travel; but of ten they can spare an hour or two to come by the USIA studio or other DVC facility. The newest DVC technology, moreover, does not even require a special studio, but only a small digital camera that can broadcast through a computer monitor. In short, the participant doesn't even have to leave the office.

QUESTIONS RAISED BY SEPTEMBER 1996 GAO REPORT

Question. I understand that in response to the report, USIA has created a priority system called the "RAGG" system, which ranks countries in six categories, with the lowest category having "limited public diplomacy goals." Is this program fully implemented? How many countries are considered to have "limited public diplomacy goals?"

Answer. Revised substantially during 1993, USIA's Resource Allocation Group (RAG) system antedates the GAO's report of September 1996. The system continues to be the Agency's framework for relating country-specific Agency resources with U.S. national interests and Agency policy objectives. It raises resource issues for discussion and review by the Area Offices and the Resource Management Committee and for final decision by the Director.

The RAG system identifies six categories of countries in which the U.S. has strategic interests and concerns that can be furthered through public diplomacy. In addition, there are two categories of countries in which the Agency either has no resources or cannot operate. Together these two categories include 46 countries.

Fifty-seven countries are currently in the lowest category in which USIS posts pursue public diplomacy goals. While these countries are of lower priority, "lower priority" does not mean "no priority."

Posts in this category are highly cost-effective. Although they are USIA's smallest operations in terms of funding and personnel, the impact of their programs is often disproportionately great. In fact, some posts are becoming special issue posts, focusing scaled-back resources sharply on a special problem or policy question identified by the ambassador as requiring public diplomacy support. For example, one Caribbean post works solely on anti-narcotics programs.

Because the largest number of these posts is in Africa, wholesale elimination of the lower RAG posts would incorrectly signal diminishing U.S. commitment to that continent. Engagement through public affairs programming in the democratizing countries of Africa remains critical to U.S. policy.

One small Gulf country has an importance to US policy in the region far greater than its physical size, since it hosts the US Fifth Fleet and because of its strategic location. Because of its size and of the very well defined areas of our work there, it would fall relatively low in the RAG list, but certainly it is an important US ally which merits USIS attention.

Question. What savings have been generated since the creation of this system?

Answer. Since 1993, the RAG system has been an integral part of the Agency's resource analysis and budgeting process. While not a mechanism for making cuts, it has proved to be an important tool for senior management in dealing with drastic budget reductions over the past four years. Savings from reductions in the Agency's overseas missions have totaled $71.6 million for the period, including the elimination of 1,004 positions.

Question. Personnel costs in Germany and Japan are some of the highest, consuming more than 65 percent of the total USIA budget in each country, according to the GAO report. How do these costs factor into your priority calculations?

Answer. Recognizing the high costs of doing business in Germany and Japan—but recognizing at the same time how essential these countries are to the U.S. as foreign policy partners—USIA has made substantial cuts in both, including substantial cuts in personnel. In Germany, for the period 1994-1998, overall reductions total approximately $4.2 million, including the elimination of four American positions and 38 Foreign Service National employees. In Japan, for the same years, overall reductions total approximately $3.5 million, including the elimination of two American positions and 23 FSNs.

GAO REPORT RECOMMENDATIONS: EXCHANGES PRIORITIES

Question. As I stated at the outset, the exchange of ideas and people with other countries is a valuable public diplomacy tool. In FY 98, the President is requesting $198 million for USIA-sponsored exchanges. According to the GAO report, conditions have changed since the U.S. first began funding scholarship. In 1950, 7.7 percent of foreign students in the United States reported the U.S. federal government as their primary source of funding. In 1994, only 1.2 percent cite the U.S. Government as their primary support. Likewise, in 1969, approximately 18,000 U.S. students studied abroad. In 1994 more than 76,000 students attended foreign educational institutions.

- One option the GAO recommended was a reduction in the funding of exchanges with western industrialized countries, especially Germany and Japan, which rank second and 14th, respectively, in terms of USIA exchange funding. What

efforts has USIA taken to redirect exchanges to poorer and less developed countries?

- Another option cited by GAO was the development of a prioritization mechanism based on using uniqueness and relationship to foreign policy goals. Such a system would ensure dwindling resources are used most effectively. Has such a system been implemented? If so, what changes in the FY 98 budget submission reflect this change?

Answer. USIA programs have always comprised a small part of the total number of international student exchanges. Privately-funded foreign students, however, tend to be self-selected, affluent and disproportionately represent one region (Asia) as well as certain academic fields (particularly the physical sciences and engineering). By constrast, USIA programs are focused on quality and not quantity and are driven by the strategic goal of reaching the best and the brightest who will influence America's interests around the world in the future. Our exchanges seek to complement and provide a targeted foreign policy impulse to America's student and scholarly exchanges with the world. Unlike private programs, USIA exchanges can respond flexibly and quickly to specific, often rapidly changing policy priorities.

USIA allocates its exchange resources in a balanced, strategically focused way across all of the world's major regions. Western Europe, in fact, ranks only fifth among six regions in terms of direct USIA exchange funding. In funding for the Fulbright program, Western Europe ranks last among the six regions. USIA exchange dollars in the industrialized countries (both Western Europe and Japan) are stretched, however, by the largest host government and private sector support found anywhere in the world. Japan and Germany, for example, contribute substantially more to the Fulbright program than does the United States, a reflection of the critical role which these crucial U.S. allies assign to educational exchange with the United States.

USIA's policy-driven Resource Allocation Group (RAG) system helps to shape the level of exchanges among the six major geographic regions. In FY 95, for example, 44% of USIA's exchanges in terms of total participants took place with top priority countries. These countries have the greatest existing and future impact on America's security and economic interests. Our vital relationships with these priority countries, which will evolve and change in the 21st century, merit the continued USIA support for educational and professional exchanges.

EDUCATIONAL ADVISING

Question. The President's FYI 98 budget request includes costs associated with USIA-supported educational advising institutions. These institutions provide information about the U.S. system of education to international students. According to the GAO report, the USIA Inspector General, which has been consolidated with the State Department since the report's release, recommended that it is an appropriate time for USIA to turn over its educational advising role to the private sector.

- What specific efforts has USIA made to privatize or curtail these programs?
- If no efforts have been made, why not?

Answer. Education is the American economy's fifth largest service export—$7.5 billion in earnings annually—but in the last two years the number of foreign students in the U.S. has remained flat for the first time since World War II. Our main competitors for foreign students—Governments of the United Kingdom, Australia, and Japan—have successfully intensified their recruitment efforts.

USIA supports a network of 450 student advising centers around the world, the only source in many countries of comprehensive, reliable information about U.S. colleges and universities. U.S. Government support brings a commitment to ensure that all American institutions of higher education are honestly and fairly represented. The advising centers have a demonstrated impact on the marketing of U.S. education among prospective foreign students. For example, approximately 55% of the 47,000 Latin American/Caribbean students who came to the United States (and spent $732 million in the American economy) received guidance from USIA-supported advising centers.

We believe that USIA advising efforts can be streamlined and leveraged significantly both in partnership with the private sector and in expansion of self-sustaining operations at overseas centers. We have made specific efforts to do so:

- In FY 97, Congress granted one-year recycling authority to USIS posts which offer advising and counseling services. We are requesting permanent recycling authority this year. Over the next several years, we expect that USIS-run advising centers will fund much of their operational costs from recycled fees.

- We developed two pilot projects with Peterson's publishing Corporation operating two former USIS advising centers, which we plan to replicate at other locations. We also are seeking other private partners who might be interested in taking over such centers.
- We have worked with the Educational Testing Service (Princeton, New Jersey) and Sylvan Prometric in establishing 12 computer-based testing sites and a pilot computer resource center (1998). The projected expansion of this initiative over the next two years to another 50 advising centers could yield up to $300,000 in savings.
- We have implemented an award-winning student advising CD-ROM which has greatly encouraged foreign students to pick US institutions for their on-going studies.

The Office of Inspector General revised its original recommendation and now agrees that USIA should have a continued but reduced financial role in student advising and counseling. Although we have reduced funding for overseas educational advising by 35%, we expect additional significant savings as we move ahead with our strategy for fee-for-service recycling and expanded partnerships with the private sector.

RESPONSES OF MR. DUFFEY TO QUESTIONS ASKED BY SENATOR FEINSTEIN

FOREIGN POLICY REORGANIZATION

Question. Mr. Duffey, as you know, the past several years have seen considerable debate about the benefits of an independent USIA, or whether U.S. foreign policy would be better served by folding USIA operations into the Department of State. Secretary Albright has stated on several occasions that she enters the discussion of about State Department reorganization with an "open mind."

What benefits do you see deriving from U.S. international public affairs development remaining independent from foreign policy development? If USIA were folded into State, as some have suggested in the past, would the voice of public diplomacy be either lost in the shuffle of policy making or be hopelessly compromised?

Answer. The issue of reinvention or reorganization of the foreign affairs agencies is currently under review within the Administration. I expect that the views of USIA will be considered in that process. Whatever the outcome of the review I anticipate that the important mission of public diplomacy will be protected.

FOREIGN POLICY REORGANIZATION

Foreign policy making today is increasingly done on an interagency basis. In addition to the State Department, the departments of Defense, Commerce, Treasury, and USTR—just to name a few—all have a seat at the table. If USIA were absorbed into the State Department, is there a danger that U.S. public diplomacy would always reflect the State Department point of view, even when that view did not necessarily reflect the ultimate policy decision?

Answer. USIA, as I have stated on numerous occasions, does not function as the public affairs arm of the Department of State, but as the source of public diplomacy formulation and the public affairs agency for all U.S. government presence overseas. The Agency and its posts around the globe serve all of the branches of government—executive, legislative, and judicial. Within the Executive Branch in addition to the Department of State, we work closely with Defense, Treasury, Justice, Commerce, USAID, USTR and other agencies and departments in the international arena. It would be important, in any kind of reorganization, to ensure that public diplomacy activities abroad be in service to all parts of the government. If this were not the case, the result might be not a streamlining of public diplomacy operations, but rather a proliferation of them as each department sought to have its own independent outlet.

USIA MANAGEMENT/ADMINISTRATION

Question. (As you noted in your testimony), the USIA budget has been declining over the past several years. How deep have the cuts been? What efforts have you made to streamline and reinvent the Agency?

Answer. The cuts have been substantial. Measured on an annual basis, gross reductions have been taken as follows in USIA's major accounts:

FY 94
Salaries and Expenses, 173 positions, $16.2 million. International Broadcasting Operations, 263 positions, $49.9 million.

FY 95
Salaries and Expenses, 250 positions, $18.0 million. Exchange Programs, $15.8 million. International Broadcasting Operations, 292 positions, 754 grantee positions, $90.3 million.

FY 96
Salaries and Expenses, 743 positions, $60.4 million. Exchange Programs, $31.9 million. International Broadcasting Operations, 212 positions, 420 grantee positions, $78.9 million.

FY 97
Salaries and Expenses, 221 positions, $20.3 million. Exchange Programs, $14.1 million. International Broadcasting 0perations1 76 positions, $16.4 million.

FY 98
International Information Programs (formerly S&E), 118 positions, $5.2 million. Exchange Programs, $4.6 million.

These reductions total 2,348 positions, 1,174 grantee positions, $422.0 million.

With these changes, the budget has been reduced 33 percent in constant dollars since 1993; staff is down by 29 percent.

USIA began reinvention to achieve savings before the major budget cuts started, but the pace of cuts has been faster than anticipated.

USIA consolidated all USG non-military international broadcasting, generating savings of over $400 million over the 1994-1997 period.

The Bureau of Policy and Programs was dismantled, closing down less-effective means of reaching key audiences. The team-managed, new Bureau of Information, stressing technology, is 30 percent smaller.

Overseas posts are becoming more focussed and more flexible, with fewer fixed facilities. Through FY 1997, we have closed 35 posts, while opening 26 in former USSR, Central Europe, Asia, and Africa to meet new foreign policy demands.

The Management Bureau is reengineering administrative processes; its staffing is down by over 20 percent. Among others, printing, warehousing, and travel administration are being reconfigured or consolidated with other agencies.

Financial and other administrative systems are being upgraded through use of common systems with other agencies.

The Bureau of Educational and Cultural Affairs is being streamlined and delayered. Staff reductions have been made.

USIA has been a leading proponent of the new overseas administrative support system, ICASS.

BUREAU REORGANIZATION

Question. Since 1993 USIA has undergone a profound management and administration overhaul. I was wondering if you could comment on both the administrative and policy aspects of the changes made at USIA by the closing of the Bureau of Policy and Programs and the creation of the Bureau of Information as well as on the plans for the reorganization of the Bureau of Education and Cultural Affairs.

Answer. In 1993, USIA dismantled the Bureau of Policy and Programs, closing down activities such as the production of magazines and exhibits which were no longer deemed the most effective means of reaching foreign decision makers. In its place the Agency created the Bureau of Information, 30 percent smaller and radically different, as a model of a de-layered, team-managed, and customer-oriented organization.

Only a year later, the new I Bureau received the Vice President's Hammer Award in recognition of its success as a "reinvention laboratory." Innovative and agile, the bureau has:

- Established a highly regarded Internet presence (rated "number one" in 1996 in the government category for content and experience by Point Communications).
- Produced an award-winning CD-ROM to support student counseling overseas (recognized for significant achievement in 1996 in the Federal Government category by SIGNAT Foundation, the world's largest CD-RON user group).
- Created a series of thematic biweekly journals delivered electronically to USIS posts overseas and available on the Internet (French versions ranked "number three" on a list of the best 200 Francophone websites by Le Guide, a Microsoft Corporation publication in France).

- Supported the move away from traditional libraries with on-line reference services.
- Constructed a digital library as a hybrid Internet-CD-ROM product (now in pilot phase).
- Explored the use of digital video conferencing as an economical supplement to the Speakers and Specialists Program.

The Bureau of Educational and Cultural Affairs has prepared a comprehensive reorganization plan to overhaul administration of USIA exchange programs. The proposed plan would address four main objectives:

- Fewer operational units to reduce fragmentation (elimination of two offices and 26 organizational units);
- Fewer supervisory levels and reduced layering (elimination of 31 supervisory positions and cutting back the number of clearances required by 30 to 50%);
- Increased teamwork and communication across functional lines;
- Reduced staffing to meet National Performance Review and budget requirements.

The plan is now being reviewed to determine consistency with Agency objectives and the Administration's National Performance Review goals to streamline government operations. In anticipation of reorganization, however, the Bureau in FY 96 and 97 eliminated more than 50 positions (15% of its work force).

RESOURCE ALLOCATIONS

Question. As USIA has cut back positions and posts over the past several years to take into account declining budgets, there has been some debate and disagreement as to how USIA is determining which posts should be closed or consolidated and which should remain open. One of the central missions of USIA in the coming years, I would think, is helping to engender the growth of free markets and democracy in East and Central Europe. Yet despite the move of RFE/RL from Munich to Prague, more resources are apparently still dedicated to operations in Western Europe than in the East. I was wondering if you could offer us some insight into the decision-making process within USIA for determining how resources are allocated?

Answer. Since the end of the Cold War, we have opened 18 new posts in Eastern Europe and the NIS, demonstrating our significant commitment to the region. For FY 98, we have allocated more overall resources for Eastern Europe and the NIS than to Western Europe. Our budget request for Eastern Europe is $130.4 million, while for Western Europe it is $92.5 million—a difference of $37.9 million. This difference indicates a more extensive exchange program and broadcasting schedule for Eastern Europe and the NIS than for Western Europe.

In Eastern Europe and the NIS, USIA programs focus on the development and enrichment of democratic institutions and a market economy. We conduct professionally focused exchange programs for business leaders, government officials, and academics. We have a very active program of exchanges for high school, university, and post-graduate students. Members of Parliament and other leading officials from all of the countries of Eastern Europe and the NIS have traveled to the U.S. on USIA programs to learn about the American legislative system.

USIA Information Resource Centers in Eastern Europe and the NIS provide up-to-date information on U.S. policies, economic trends, and social issues to high-level government officials, leading members of the media, and influential members of the academic world and research institutes. USIA officers in the region are helping to develop an independent media through a number of programs to train journalists and assist in the modernization of the print and electronic media.

Compelling policy interests keep us engaged in Western Europe at the same time. The U.S. requires European partnership to achieve our international policy goals and to defend our vital interests. The European Union is our largest trade and investment partner, and the EU nations are our most critical allies in global security affairs.

The successful defense of U.S. vital interests in partnership with Europe requires that USIA:

- Build public support abroad for specific U.S. short-and long-term policies, because democratic governments will only adopt policy decisions when they find resonance for those decisions with their own citizens.
- Broaden individual and institutional constituencies for the policies and values essential to the security and prosperity of the U.S., to assure that long-term U.S.-European partnership can withstand short-term tensions and differences over specific issues.

While USIA is maintaining a presence in Western Europe, budget realities have forced us to cut funding for Western Europe by 24% since 1995. We have closed four posts and cut 139 positions. In FY 1997, we cut Western European programs by $4.25 million. By this summer, 64% of Western European country posts will be staffed by one or two American officers.

In light of these budget reductions, we have changed completely the way we do business in Western Europe. We do not rely on expensive physical plants, and instead run tightly focussed programs on key issues and policies. In Germany, for example, we are moving away from activities based on infrastructure-heavy America Houses and toward targeted, policy-oriented activities. Among the issues we support through our programs are European security, trade sanctions against Iran, Iraq and Cuba and intellectual property rights.

EXCHANGE AND TRAINING COORDINATION

Question. I understand that one of the goals of USIA for the upcoming year will be putting into place the Office of U.S. Government International Exchange and Training Coordination. The goal of the Office is to increase cooperation and eliminate duplication of effort by the over 35 federal agencies that administer international exchange and training programs.

Can you provide us with a few examples of the sort of duplications that can currently be found in U.S. Government exchange and training programs and expand on how the Office will manage to consolidate these programs. Do you have an estimate on what sort of savings will be realized by this effort?

Answer. To improve coordination among U.S. agencies conducting international exchange and training programs and to examine the issue of possible duplication, the Administration will strengthen USIA's existing authorities through a new Executive Order and related legislative proposal. The Executive Order will establish a senior-level inter-agency Working Group which will make recommendations to the President on improving efficiency and effectiveness in international exchanges. The focus will be to increase inter-agency cooperation, set common benchmarks in reporting on U.S. exchanges, reduce duplication, and prepare a national exchanges and training strategy.

The Executive Order will also establish an Office of U.S. International Exchange and Training Coordination in the USIA Bureau of Educational and Cultural Affairs. This Office will provide staff support for the Working Group, serve as an inter-agency clearinghouse, and monitor exchange and training programs across the government.

Before implementation of the new inter-agency Working Group and its support office, however, it would be premature to identify or speculate on specific duplication among exchange and training programs in different federal agencies. Such judgments require careful review by the inter-agency Working Group. Although we believe that savings can be made in the estimated $1.8 billion in federal funds committed to these programs, it is difficult at this point to predict what level can be achieved.

LIBRARY FELLOWS PROGRAM

Question. It has been brought to my attention that during the next year USIA plans to eliminate its Library Fellows Program which places practicing librarians with expertise in areas identified as needed by host libraries in those host libraries. This program has allowed American librarians to work overseas improving management and assisting in the development of technological innovation and has also brought librarians from abroad to spend time in the U.S. The benefit of creating the sorts of global information networks embodied in this program seems to me to be a central element of the USIA mission. Why has USIA chosen to eliminate this program? What are the savings? Will these sorts of librarian exchanges still be able to occur under other USIA programs?

Answer. Over the past several years of declining budgets, USIA has had to make hard decisions. The FY 98 USIA budget proposes to eliminate funding to the American Library Association for the library fellows program. However, we are currently discussing a limited funding option for FY 98 that would provide 50 percent of the FY 97 grant funds but only if the ALA matches these Agency funds through fundraising in the private sector. USIA would have to reprogram from other sources to cover such an option.

Question. What are the savings?

Answer. Should the program be eliminated for FY 98, the savings will total $450,000. Should the Agency go forward with its mate proposal to the ALA, the savings will total $225,000.

Question. Will these sorts of librarian exchanges still be able to occur under other USIA programs?

Answer. The Agency intends to fund a number of other programs that engage our interests in global information networking and international librarianship. The Fulbright program has funded an average of 8 librarians a year over the last five years and will continue to do so. The International Visitor Program will continue to fund group projects for foreign library professionals. Our own Information Resource Centers and libraries will continue to send foreign nationals to ALA conferences. Academic specialists in library science will be recruited and sent abroad to train, teach, and present seminars, as much as the Library Fellows do, but for shorter periods of time. Finally, the Agency intends to continue its relationship with the ALA by working cooperatively with them in presenting training and/or cutting-edge seminars and by providing assistance to ALA's international initiatives.

NEW INFORMATION TECHNOLOGY

Question. Beyond the CD-ROM which you brought with you to this hearing, could you provide us with additional detail about the sorts of innovative programs that USIA has planned? USIA was one of the first federal agencies to use the Internet—do you have any additional plans to aggressively use the Internet, for example, as a venue for public diplomacy? What other sorts of "virtual diplomacy" do you envisage USIA promoting?

Answer. USIA's International Home Page is expanding exponentially with new subject and issue-oriented web sites. Among our more recent sites: U.S. Support for Peace in the Middle East, The New Atlantic Community, Marshall Plan 50th Anniversary, Intellectual Property Rights, and Asia Pacific Economic Cooperation (APEC).

One of the most comprehensive Internet sites managed by USIA is devoted to international civic education. The site, called Civnet, contains a vast range of civics teaching resources, including lesson plans, books, documents, periodicals, and lectures. Civnet also provides a forum for the electronic exchange of views among professionals in the field, notices of events and conferences, and linkages to a worldwide network of organizations committed to teaching the values of democracy and civil society.

We are continuing our new program of biweekly Electronic Journals, which address the five broad subjects of economics and trade; foreign policy; democracy and human rights; global issues such as environment, drugs, and communications; and U.S. society and values. The journals, prepared in a variety of formats, can be accessed over the Internet and downloaded for local printing.

Among the recent and planned innovations:

- USIA used its electronic media to communicate the Department of State Human Rights Report to each post more quickly and less expensively than in previous years.
- The Digital Broadcasting Project will employ modern digital computer networks to replace and integrate several separate and obsolete technical facilities used to create and produce radio and television programs.
- Broadcasting is also converting its satellite circuits to compressed digital format, which, among other things, will allow it to reach over 60 percent of the world's population via AsiaSat2.
- USIA is engaged in a pilot effort to improve communications with its overseas posts. A two-way, high-speed digital platform will be tested.
- We are piloting technology innovations such as a digital library CD-ROM—a source of information on law, economics and government that is timely, relevant and easily accessible to overseas posts and their audiences.
- We intend to pursue an on-line Exchanges Network offering a variety of directories and services and fostering communication among our exchanges alumni. Additionally, we have plans to develop an on-line database of international exchange opportunities.

TECHNOLOGY UPGRADES

Question. I understand that USIA is improving its technological base. Please give me some examples of what you have done and what you plan on doing over the next several years.

Answer. USIA has developed a very active and award winning worldwide web site on the Internet. Many of our overseas posts have also created home pages for their foreign audiences, and we see continued expansion of our Internet use for both public audiences and as an Internet for use by our posts and missions overseas. We

have effectively used CD-ROM technology to explain higher educational opportunities to foreign students. We engage regularly in meetings throughout the world via digital video conferences, which is a technology well-suited for our mission, and we plan to continue our investments in this area.

The success of our CableXpress product is a model in the foreign affairs community. This system, which is based on Lotus Notes, has automated the preparation, distribution, archival and retrieval of all unclassified cable traffic—which forms over 90 percent of our official communications. In fact, the USIA team responsible for this program was recognized for technological excellence by Government Computer News and GSA.

A few years ago, USIA made a concerted effort to break away from the out-dated propriety world of Wang computers. Today every USIA overseas post uses PC-LAN technology. Domestically we also replaced all Wang equipment with PC-LANs. A few years ago we upgraded the network backbone that interconnects all LANs domestically to fiber optic cable. Agency employees now frequently use e-mail and access the Internet both of which are universally available to domestic employees.

Despite this progress, USIA is very concerned about our capability to make additional progress in both the program and administrative areas. As outlined in our Program and Budget in Brief document, we plan to develop a USIS Digital Library and create programs that exploit the Internet in support of the Fulbright and other exchange programs. We will continue efforts to expand the number of fast and reliable communications circuits between Washington and our overseas posts.

BROADCASTING QUESTIONS

FOR THE RECORD

SFRC HEARING

DRAFTED BY

BROADCASTING BOARD OF GOVERNORS

BROADCASTING AND USG POLICY

Question. Some analysts, including the distinguished Chairman of the Foreign Relations Committee, have said that U.S. government funded broadcasting should be required to reflect U.S. government policy. Do you share this view? Is there merit in broadcasting being wholly independent and allowed to run programs suitable to any audience? Do you see any benefit to allowing private companies and organizations to advertise on U.S. international broadcasting station? Could it help defray costs? What sort of limitations would you recommend be put on such advertisers

Answer. Yes, in fact, U.S. Government broadcasting already is required to reflect U.S. policy under the Voice of America Charter. The Charter requires VOA: 1) to provide accurate, objective, and comprehensive news; 2) to explain American institutions and project American thought; and 3) to present the policies of United States clearly and effectively along with discussion of those policies.

The primary vehicle for carrying out the third requirement of the Charter is the daily VOA editorial, which is introduced as "expressing the policies of the United States government." VOA internal procedures require that the editorials be broadcast by all of VOA's fifty-two language services.

U.S. Government broadcasting also presents U.S. policies through such programs as "On the Line," a weekly VOA television/radio policy talk show featuring high-ranking U.S. officials, and WORLDNET television interactives with U.S. officials and journalist overseas.

The International Broadcasting Act of 1994 unified all U.S. non-military international broadcasting, within USIA, presided by a Presidentially-appointed, bipartisan, Broadcasting Board of Governors. In accordance with the Act, the Secretary of State, acting through the Director of USIA, provides information and guidance on foreign policy issues to the Board. This Board oversees federal entities such as the Voice of America, WORLDNET TV, and Radio and TV Marti, as well as two private corporations receiving grants, Radio Free Europe/Radio Liberty and Radio Free Asia. This organizational arrangement assures the clear presentation of U.S. policy, as well as the necessary protections for journalistic independence and objectivity.

In this regard, privatization is at best of limited value. The reason is clear: what U.S. broadcasters do—present U.S. policies, bring news and ideas to information-starved audiences, promote democratic and free-market ideals—cannot and would not be done by any private broadcasting organization, let alone in dozens of foreign languages. Private broadcasters are in the business of making money, not serving the vital interests of the U.S. Government or meeting the informational needs of the many people around the world whom U.S. broadcasting now serves.

Allowing private companies and organizations to advertise on U.S. international broadcasts would be beneficial only in that it could help defray costs of our overall broadcast operations. Adverting could also help generate revenue, enabling support for programming which existing budgets would render unaffordable. In all likelihood, such advertising revenue would be a precipitant of a joint venture with a private broadcasting organization in airing commercials on independently owned AM/FM VOA affiliate stations around the world. However, we must adhere to guidelines to protect the editorial and journalistic integrity of the broadcast product.

Generally, the limitations on such advertisers would mirror closely standards similar to those currently in use in the U.S. today. In addition, consideration and sensitivity must be extended to social mores of an international audience to whom we are broadcasting.

PUBLIC AFFAIRS TV PROGRAMS

Question. I was wondering if you could provide the Committee with some additional information regarding the USIA's production of public affairs television programming. I understand, for example, that USIA collaborated with the Drug Enforcement Administration to create a Spanish-language TV documentary on narcotics which appeared on 50 TV stations throughout Latin America and the Caribbean. I am particularly interested in hearing more about the editorial process—how is a decision to make this sort of program made? Who makes it? Who oversees productions? What is the interagency consultative process like? How do you measure the impact of this type of programming?

Answer. USIA Television has not produced documentary programs with regularity since 1982. A few documentaries have been produced since that time; the last one was produced three years ago. This documentary, "The Fragile Ring of Life," was produced in content and financial collaboration with other U.S. Government agencies: the Agency for International Development, the State Department, the Environmental Protection Agency, the Commerce Department's National Oceanic and Atmospheric Administration and the Interior Department. The subject was determined through an interagency consultative process, with the objective to bring international attention to the worldwide environmental problem that endanger coral reefs across the globe. The documentary received Congressional approval for showing in the United States.

With regard to the specific question of a documentary with the Drug Enforcement Agency, there is no program USIA has produced with the DEA that could be termed a "documentary."

USIA's Television Service is very active in the area of public affairs programming. The television techniques that are used fall primarily into two categories: short news clips and discussion programs. The DEA has appeared with some regularity in the short news clips (two to four minutes in length) that are produced daily in our News file service and provided to foreign broadcasters. Newsfile is generated by the WORLDNET television staff, a group of professional journalists who select their daily stories from national and international events that reflect broad U.S. foreign policy themes. Newsfile also uses material from regular official briefings at the White House, the Pentagon and the State Department. The fight against illicit drugs in Latin America, and the U.S. position on the issue, receives regular coverage by Newsfile.

To reach a more targeted audience, WORLDNET regularly produces public affairs discussion programs, or Interactives, with live audiences in specific countries to address important bi-lateral and multi-lateral themes. These programs may take the form of a televised press conference or an exchange between government officials.

The topic selection process for these public affairs discussion-format programs is a simple one. Every week, a team within the TV Program Office made up of career foreign service officers and professional television producers review the requests for programs that have come directly from U.S. embassies abroad, with topics that fall within the guidelines of the U.S. missions program plan and developed by the embassy's ambassador-led "country team."

The program team also reviews program ideas that originate within USIA in Washington and other government agencies, program ideas that may support mis-

sion goals on bilateral issues or may be used to explain U.S. Government positions on broader issues such as the expansion of NATO. They may address a particular department's concern., e.g., the State Department and the drug certification findings, or the Treasury Department's introduction of the new $100 bill.

USG officials such as Office of National Drug Control Policy Director Barry McCaffrey have appeared on these discussion programs to explain our policies and actions against illegal narcotics. Such high-level participation usually assures good placement on television stations where the topic is germane, with newscasters using excerpts from the programs for their news reports.

Recent examples of programs on WORLDNET concerning drugs and Latin America:

(FY–97)

3 Oct. 1996 "Frontiers in Demand Reduction" Guest: Gen. Barry McCaffrey, Director, White House Office of National Drug Control Policy (ONDCP). With San Salvador, Santiago, Tegucigalpa.

2 Dec. 1996. "International Narcotics Issues." Guests: Patricia L. Hall, director, Latin American and Caribbean Programs, Bureau of International Narcotics and Law Enforcement Affairs, Department of State, and Robert Sims, senior adviser for international criminal justice (same bureau).

23 Jan. 1997 "The Role of the Media in Drug Abuse Awareness." Guests: Dr. Judi Kosterman, associate director for field operations, Community Anti-Drug Coalition of America, and Kellie Foster, director of communications and marketing, Community Anti-Drug Coalition of America.

Feedback on WORLDNET public affairs programs comes from USIS field posts which report on placement of television products.

AUDIENCE RESEARCH INCREASE

Question. I noticed that according to the "USIA FY 1998 Budget Proposal" part of the increase in budget request for international broadcasting is intended for use for "additional audience research." I realize that the requested amount for this research is a relatively modest sum—$1 million—but I was wondering if you could provide us with a little more extra detail on what exactly this additional audience research entails and how your findings may influence future broadcasting decisions.

Answer. IBB's goal is to have accurate, comprehensive audience research available for each language service on at least an annual basis. This would include estimates of the audience size for the services, demographic characteristics and program preferences of the audiences, and in-depth analyses of audiences' opinions about IBB programming. It is our view that this level of audience research is the minimum that IBB management needs in order to make sound, well-informed decisions. The FY 1998 request will enable us to address this goal.

In FY 1997, IBB set aside $1 million from its existing budget—more than twice the largest annual amount that had even been spent on audience research in the past—to begin moving towards its long term research goal. While this money is allowing us to sharply expand our audience data in such critical areas as Asia, Africa, and the Middle East, it is insufficient to meet our ultimate goal of obtaining accurate quantitative and qualitative audience data every year for every service, and it is for this reason that the increase is requested.

Research findings will influence broadcasting decisions in any number of ways, from the "macro" to the "micro" levels. Some examples: Studies of listening patterns will allow us to adjust VOA broadcast schedules to meet local radio habits. Focus group studies will allow us to fine tune existing programs and pre-test new programs before they go on the air. Analyses of waveband use will enable us to strike an appropriated balance between shortwave and medium wave broadcasting on the one hand, and affiliation with local stations on the other. Audience analyses will let us see what segments of the local populace are and are not listening to international radio and TV broadcasts, allowing us to devise strategies for increasing our listenership and viewership. National surveys will show us how our audience size changes from year to year, giving us a rough gauge of effectiveness and impact.

COUNTERING "HATE RADIO"

Question. Many analysts have contended that the mass media—television and radio in particular—have played critical roles in creating and fanning the flames of ethnic conflict and civil war. The role of RTLM in Rwanda, for example, has been cited by "Article 19" as being instrumental in promoting and directing the wave of genocide that swept over that nation in 1994.

Do you think it is appropriate for U.S. government public diplomacy efforts to be used to attempt to mitigate against this sort of media influence (hate radio) through "counter programming"? If so, what sort of role do you see USIA playing in this process? Is there a role for U.S. public diplomacy efforts through media education in the aftermath of civil wars or ethnic conflict?

Answer. The best antidote for "hate radio" is balanced, credible, accurate news and information. On-the-scene reportage and interviews meeting these standards and beamed back into the regions of conflict offer the best hope of responding to situations such as the world witnessed in Rwanda in 1994. VOA—as part of the U.S. Information Agency—has done precisely that these past three years in Central Africa while adhering closely to its journalistic principles and the International Broadcasting Act of 1994.

During the past three years, VOA has taken a number of steps—in reportage, special interviews, and documentaries—to perform a media education function for people tragically affected by the genocide and flight of refugees in Central Africa. Much of the reportage has centered on conflict resolution themes, and those yearning for a return to normalcy in the troubled region. In some instances, VOA's programming has even been credited with saving lives.

Examples of VOA's role in the aftermath of the Rwandan genocide:

- Immediate deployment of four VOA correspondents to Kigali, Bujumbura and eastern Zaire as the Rwandan genocide story broke in 1994. The reporters' accounts were beamed back to the area in English, French, and Swahili live or later the same day they were filed.
- Establishment in 1996 of a half hour daily service in the Kinyarwanda and Kirundi languages to Rwandan refugees throughout Central Africa and threatened populations in Burundi and Rwanda. A key feature of the service has been a Family Reunification Program, a daily message service in those languages which has helped re-unite seven families, with queries from several score others.
- Creation in 1995 and 1996 of 16 special "conflict resolution" radio scripts or documentaries focusing specifically on the cost in human terms of the Rwanda genocide and the threat of more killings there and in Burundi. The International Broadcasting Bureau's Office of Business Development arranged this VOA Africa Division programming through a grant by the Carnegie Corporation.
- Titles in the special series (in English, French, Swahili, with some adaptations in Kinyarwanda/Kirundi) included "Rwanda: Stereotypes," "Rwanda: Education for Peace", "Private Peace Radios in Rwanda", "Rwanda/church." "Rwanda: The Search for Justice," and a three-part series, "The children of Genocide."
- Responding to World Food Program request, VOA's Kinyarwanda and Kirundi Service broadcast information on the location in eastern Zaire of trucks, food, and water supplied by U.N. agencies to assist lost refugees. VOA services also reported about places where parents separated from their children might go to find them—at the request of UNICEF, Save the Children, UNICEF, and the International Committee of the Red Cross.
- Many on-scene VOA reporting trips to cover the aftermath of the genocide and conflict resolution themes, including profiles of peacemakers, have been made possible by funding the U.S. Agency for International Development. VQA currently has reporters in the Zairian capital of Kinshasa and in the vicinity of Kisangani in eastern Zaire. VOA correspondent Scott Stearns—on the scene at a refugee camp near Kisangani—set the record straight last week following inaccurate and highly exaggerated reporting by other news agencies of alleged massacres of Rwandan refugees in the area.

RFA TO CHINA AND TIBET

Question. Last year USIA began broadcasting in China and Tibet through Radio Free Asia with the stated goal of providing news and information about the country and region. I was wondering if you could comment a little on the functioning of Radio Free Asia's programs in China and Tibet. What sort of editorial process determines the content of the broadcasts? How do you handle news and information about such issues as human rights where the United States and China are sometimes at odds? Has there been any official Chinese government reaction conveyed to you about your operations in China and Tibet?

Answer. The editorial decisions at Radio Free Asia are basically the same for all of the languages in which we broadcast, including China and Tibet. RFA is a surrogate radio news service. That means that its mandate is to provide news and information to the people of a particular country which is not otherwise available from

local media, often due to authoritarian repression. RFA was created to concentrate on the news of a particular country or region, not to disseminate world news and news about the United States unless it is directly pertinent to the listeners.

The legislation that created RFA also states that it is not to broadcast propaganda and its presentations are to be the epitome of fair and objective journalistic practices. That has been our credo—RFA's credibility would be destroyed if it did otherwise. Stories about human rights are treated with great attention to detail, because frequently they are the top stories of any given day. Since we concentrate just about exclusively on internal news about our target countries, RFA most often covers these stories in greater detail than other news agencies.

There has been frequent criticism of RFA by the Chinese government and the Chinese official press. This criticism does not focus on the handling of a particular story or bit of information—it has always been about interference with the internal affairs of China. China has also pressured two nations—Kazakhstan and Armenia—into cessation of transmission of RFA broadcasts from facilities in their country to China. RFA is not aware of any Chinese criticism of broadcasts to Tibet.

RFA TO KOREA

Question. I understand that later this year Radio Free Asia intends to start broadcasts in North Korea. Given the delicacy of the situation on the Peninsula, I was wondering if you could provide me with some additional information about the sort of programming that you intend to institute in the North Korean broadcasts. How will these efforts assist and support U.S. diplomatic initiatives?

Answer. The Korean service of RFA started broadcasting on March 3. Its purpose is the same as all of RFA's language services. Its mandate is to bring news and information about North Korea to the people of that nation—news they can't get from their own censored media. News about South Korea is also part of the daily broadcasts. Consistent with U.S. policy and diplomatic initiatives, the broadcasts are designed to help create an informed civil society equipped to participate in the political process of its own country—a right that is now denied.

RESPONSES OF MR. DUFFEY TO QUESTION ASKED BY SENATOR HELMS

WESTERN VS. EASTERN EUROPE

Question. To clarify your response during the hearing, could you outline for us the resource allocations USIA makes between Western and Eastern European posts? How have these allocations been adjusted since the end of the Cold War? Could you address personnel, budgetary, and program resources?

Answer. Since the end of the Cold War, we have opened 18 new posts in Eastern Europe and the NIS, demonstrating our significant commitment to the region. For FY 98, we have allocated substantially more resources for Eastern Europe and the NIS than for Western Europe. Our budget request for Eastern Europe is $130.4 million, while for Western Europe it is $92.5 million—a difference of $37.9 million. This difference indicates a more extensive exchange program and broadcasting schedule for Eastern Europe and the NIS than for Western Europe.

While USIA is maintaining a presence in Western Europe, budget realities have forced us to cut funding for Western Europe by 24% since 1995. We have closed four posts and cut 139 positions. In FY 97, we cut Western European programs by $4.25 million. By this summer, 64% of' Western European country posts will be staffed by one or two American officers.

There are more exchange programs conducted for Eastern Europe and the NIS than for Western Europe, and there is much more broadcasting to Eastern Europe. Broadcasting to Western Europe consists solely of Greek and Turkish language broadcasts.

Compelling policy interests keep us engaged in Western Europe at the same time. The U.S. requires European partnership to achieve our international policy goals and to defend our vital interests. The European Union is our largest trade and investment partner, and the EU nations are our most critical allies in global security affairs.

The staffing changes in the two geographic areas reflect the Agency's shift in priorities. Staffing for our West Europe programs reflect reductions of 36% between 1989 and 1998. Over the same period, our staffing levels for programs in the NIS and Eastern Europe, while reduced somewhat over the past five years, are up by 31% over the 1989 to 1998 period.

APPENDIX 4

HEARING OF MARCH 12, 1997

RESPONSES OF MR. MCNAMARA TO QUESTIONS ASKED BY SENATOR SARBANES

Question 1. Which Central European and Baltic states are slated to receive the $402 million in defense loans? How are the loans to be allocated among them?

Answer. All Central European and Baltic members of the Partnership for Peace that meet U.S. government creditworthiness standards for FMF loans will be eligible to receive these loans. Poland, Hungary, the Czech Republic, Slovenia, and Estonia currently meet these standards. Other countries will become eligible as their overall macroeconomic situation—and thus their ability to repay the loans—improves. Loans will be allocated based on the merits of the individual countries' proposals.

Question 2. How can a $20 million subsidy appropriation support $402 million in Central Europe Defense Loans when it only supported $242 million for the same countries last year? What has changed in their economies to allow such a reduction in the subsidy rate?

Answer. Several factors enable the FY 1998 requested loan subsidy of $20 million to support $402 million in loans, which represents an increase of $160 million over the FY 97 appropriated level. First, the mix of countries included in the FY 98 budget request differs from those Congress included in the FY 97 appropriations bill. Thus, the mix of credit (sovereign risk) ratings that was used to calculate the loan value increased the amount of loan that the same $20 million subsidy could purchase. Second, in certain cases a country's sovereign risk rating actually improved from FY97 to FY98—resulting in a greater amount of loan available to that country for a comparable subsidy. Finally, due to revisions in the scoring of all government direct loan programs, the FY 98 loan subsidy rates, which are calculated by OMB and correspond to a particular credit rating, have improved over the FY 97 rates thereby reducing the subsidy cost for loans.

Question 3. How are loan subsidy rates calculated? What are the respective credit ratings of the countries to which we plan to extend FMF loans?

Answer. International loan subsidy rates are based on a number of different weighted factors. For example, for a particular country, the primary factors are a country's sovereign risk (credit) rating and terms of the loan. These establish what percent is required to subsidize the gross obligation for the principal amount of the loan. The Office of Management and Budget maintains and updates a loan credit model that calculates loan subsidy percentages.

For FY 98, we intend to offer FMF loans in Central Europe and the Baltics only to those countries which have a sovereign risk rating of at least C-minus. Currently, those countries are Estoria, Slovenia, Poland, Hungary, and the Czech Republic.

Question 4. What is the aggregate acquisition cost and current value of defense articles and defense services we have given away free of charge to Greece and Turkey each year under section 516 of the Foreign Assistance Act since its inception in FY 1987, and under the "cascading" provisions of the CFE Treaty?

Answer. No records were kept of the value of grant EDA delivered to Greece and Turkey from 1987-1992. From 1993-96, DSAA reports to us that the acquisition cost and current value of EDA delivered to Greece and Turkey are as follows:

FY	GREECE		TURKEY	
	Acquisition	Current	Acquisition	Current
93	$128,617,486	22,046,108	267,908,664	55,176,284
94	$31,959,297	6,639,068	35,048,199	7,366,278
95	$92,590,007	18,730,404	146,981,404	51 ,649,291
96	$6,965,296	1,304,141	0	0
97YTD	0	0	0	0

- These totals reflect only the value of actual deliveries. Excess defense articles are made available to both Greece and Turkey in accordance with section 573(e) of PL 101-167.
- No cost data is available for the items transferred to Greece and Turkey under the CFE Cascading Program as items were tracked based on the number of items delivered. Congress has been notified of these numbers in past-reports.

	GREECE	TURKEY
M60A1 Main Battle Tank	359	164
M60A3 Main Battle Tank	312	658
MI113 Armored Carrier Vehicle	150	250
M110 Artillery	72	72

(3) TERMS OF TRANSFERS.—Excess defense articles may be transferred under this section without cost to the recipient country.

(b) LIMITATIONS ON TRANSFERS.—The President may transfer excess defense articles under this section only if——

(1) they are drawn from existing stocks of the Department of Defense;

(2) funds available to the Department of Defense for the procurement of defense equipment are not expended in connector with the transfer; and

(3) the President determines that the transfer of the excess defense articles will not have an adverse impact on the military readiness of the United States.

(c) NOTIFICATION TO CONGRESS.—

(1) ADVANCE NOTICE.—The President may not transfer excess defense articles under this section until thirty days after the President has provided notice of the proposed transfer to the committees specified in paragraph (2). This notification shall include——

(A) a certification of the need for the transfer;

(B) an assessment of the impact of the transfer on the military readiness of the United States; and

(C) the value of the excess defense articles to be transferred.

(2) COMMITTEES TO BE NOTIFIED.—Notice shall be provided pursuant to paragraph (1) to the Committee on Foreign Affairs, and the Committee on Appropriations of the House of Representatives and the Committee on Armed Services, the Committee on Foreign Relations, and the Committee on Appropriations of the Senate.

(d) WAIVER OF REQUIREMENT FOR REIMBURSEMENT OF DOD EXPENSES.—Section 632(d) of the Foreign Assistance Act of 1961 does not apply with respect to transfers of excess defense articles under this section.

(e) [5]MAINTENACE OF MILITARY BALANCE IN EASTERN MEDITERRANEAN.—

(1) UNITED STATES POLICY.—The Congress intends that excess defense articles be made available under this section consistent with the United States policy, established by section 841 of the International Cooperation Act of 1989, of maintaining the military balance in the Eastern Mediterranean.

(2) MAINTENANCE OF BALANCE.—Accordingly, the President shall ensure that, over the four-year period beginning on October 1, 1992, [6] the ratio of——

(A) the value of excess defense articles made available for Turkey under this section, to

(B) the value of excess defense articles made available for Greece under this section, closely approximates the ratio of——

(i) the amount of foreign military financing provided for Turkey, to

(ii) the amount of foreign military financing provided for Greece.

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[5] Sec. 578(b) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1993 (Public Law 102-391; 106 Stat. 1685), provided that:

"(b) During fiscal year 1993, the provisions of section 573(e) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990, (as amended by subsection (a) of this section) shall be applicable, for the period specified therein, to excess defense articles made available under sections 516 and 519 of the Foreign Assistance Act of 1961.".

See paragraph (2) for subsec. (a) amendment.

[6] Sec. 578(a) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1993 (Public Law 102-391; 106 Stat.1685), struck out "three year [sic] period beginning on October 1, 1989" and inserted in lieu thereof "four-year period beginning on October 1, 1992".

(3) EXCEPTION TO REQUIREMENT.—This subsection shall not apply if either Greece or Turkey ceases to be eligible to receive excess defense articles under subsection (a).

(f) MAJOR ILLICIT DRUG PRODUCING COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN.—

(1) PURPOSE.—Excess defense articles shall be transferred under subsection (a)(2) for the purpose of encouraging the military forces of an eligible country in Latin America and the Caribbean to participate with local law enforcement agencies in a comprehensive national antinarcotics program, conceived and developed by the government of that country, by conducting activities within that country and on the high seas to prevent the production, processing, trafficking, transportation, and consumption of illicit narcotic or psychotropic drugs or other controlled substances.

(2) USES OF EXCESS DEFENSE ARTICLES.—Excess defense articles may be furnished to a country under subsection (a)(2) only if that country ensures that those excess defense articles will be used only in support of antinarcotics activities.

(3) ROLE OF THE SECRETARY OF STATE.—The Secretary of State shall determine the eligibility of countries to receive excess defense articles under subsection (a)(2) and insure that any transfer is coordinated with other antinarcotics enforcement programs assisted by the United States Government.

(4) LIMITATION.—The aggregate value of excess defense articles transferred to a country under subsection (a)(2) in any fiscal year may not exceed $10,000,000.

(g) DEFINITIONS.—As used in this section——

(1) the term ''excess defense article'' has the meaning given that term by section 644(g);

(2) the term ''made available'' means that a good faith offer is made by the United States to furnish the excess defense articles to a country;

(3) the term ''major non-NATO ally'' includes Australia, Egypt, Israel, Japan, and New Zealand;

(4) the term ''NATO'' means the North Atlantic Treaty Organization; and

(5) the term ''NATO southern flank countries'' means Greece, Italy, Portugal, Spain, and Turkey.

* * * * * * *

Question 5. What steps have been taken by the School of the Americas to ensure that participants have no ties to past human rights violations, and that all training manuals which could be interpreted to condone such abuses as torture and execution are removed from circulation? Is there any evidence that foreign military officers who have received regular IMET training (as opposed to Expanded IMET, which specifically focuses on human rights) are more respectful of human rights and the rule of law than their counterparts who have not received such training?

Answer. The School of the Americas is managed, staffed and funded by the U.S. Department of Army's Training and Doctrine Command. Specific questions regarding the School and course curriculum should be directed to the Department of Defense, as it has primary responsibility for the School.

The Department of State, however, has worked with the Department of Defense to restructure the School for the post-Cold War world and bring it in-line with the new realities of the region and current U.S. foreign policy. The State Department also works closely during the rigorous student selection process. The process involves close coordination and screening by U.S. military personnel assigned to our Embassy with the concurrence of the U.S. Embassy country team. Additionally, in some countries, host country government agencies and non-governmental organizations are also involved in the screening process. All U.S. Embassy personnel are sensitive to the need to send to the U.S. only those Latin American military personnel who have not committed, nor been suspected of committing, human rights abuses or another criminal activities. In most cases, host government officials conduct the initial screening of candidates. This involves investigating a candidates background and searching for any signs of previous illegal activities. If a candidate has committed, or is under investigation for committing, human rights abuses, he or she is automatically removed from consideration.

Human rights training is integrated into every course but one, computer training. It is impossible to determine the exact impact U.S. training has had on Latin American students versus those that have not received training. However, it is safe to assume that continued proper military training and exposure to U.S. military doctrine is essential to improving a foreign military's professionalism and respect for civilian rule and democracy. If the United States ceases all foreign military training,

it will be a tremendous blow to those militaries around the world that are seeking to learn the proper role of the armed forces in a democracy from the military of the world's oldest and strongest democracy.

Question 6. What is the current (FY 1997) and projected (FY 1998) breakdown of ESF in terms of cash transfers, project assistance, and commodity import program? How does this compare to historical levels?

Answer. In FY 1997, $2.363 billion was appropriated for ESF; of this amount, $225 million is planned for commodity import programs; $1.5 billion for cash transfers; and $606 million is planned for project activities.

The Administration has requested $2.498 billion for ESF in FY 1998. Of this amount, $200 million is planned for commodity import programs; $1.59 billion is planned for cash transfers; and, $704 million is planned for project activities.

Ten years ago, in FY 1988, $3.02 billion was obligated for ESF activities. Commodity import programs totaled just over $375 million; cash transfers totaled just under $1.8 billion and project activities accounted for almost $870 million.

Since 1992, Egypt is the only country with an ESF-funded commodity import program, which accounts for 10% of the ESF level. Israel and Egypt together received the bulk of cash requested in FY 1998—while Ireland, the South Pacific Tuna Treaty and Turkey now make up most if not all remaining cash transfers. While Israel and Egypt levels have remained steady, ESF funding for other project activities has declined, particularly impacting on Asia and the Near East, as well as Latin America and the Caribbean.

RESPONSES OF MR. MCNAMARA TO QUESTION ASKED BY SENATOR WELLSTONE

Question What is the rationale for the large increase in FMF loan levels proposed for Central European countries in FY 1988 an aggregate loan level that exceeds that of NATO members, Turkey and Greece?

Answer. There are several reasons why an increase in the aggregate loan level for the Central European countries is justified and desirable. As NATO enlargement moves forward, the countries chosen to begin accession negotiations will have to increase efforts to restructure and make compatible their militaries with NATO forces. The FMF loan program is one way the United States can assist in this process at a relatively low cost to U.S. taxpayers. Similarly, countries which do not join NATO immediately will be able to use this program to participate in the Partnership for Peace and prepare for eventual membership in the Alliance.

Moreover, as macroeconomic performance improves throughout the region, thanks to market-oriented economic reforms, the number of eligible countries will increase. At the same time, currently eligible countries will want to make greater use of the loan program as their economies strengthen, and they are better able to manage a moderate increase in external debt.

RESPONSES OF MR. MCNAMARA TO QUESTIONS ASKED BY SENATOR BIDEN

Question 1. R&D Recoupment

In the last Congress, a new exemption to the recoupment requirement under Section 21 of the Arms Export Control Act was enacted. Specifically, the President may now waive the charge if he can determine that the imposition of the charge would "likely result" in the loss of the sale, or if he determines that savings would accrue to the U.S. military if that equipment is being procured by the Pentagon at that time.

What is the standard for assessing whether the imposition of the recoupment charge will "likely result" in the loss of the sale?

Answer. There are basically three things that result in an assessment that we will likely lose a sale:

1. The country states that they will not, or can not purchase the item if the charges are not waived and provides justification, such as competing foreign item or budgetary restraints.

2. The document making the statement and requesting the waiver is normally signed by a person with authority to contract for the purchase of the item (s), i.e., they are authorized to sign the Letter of Offer and Acceptance (LOA).

3. The LOA has, in fact, not been signed (accepted) by the country. Waivers based on the savings that would accrue to the U.S. must have such savings validated by

the applicable military department and coordinated with their comptroller organization. The savings for the items being procured for U.S. forces must substantially offset the revenue foregone by the waiver.

Question. Have regulations or directives been issued to implement this provision? If so, please provide them.

Answer. The broader waiver authority was effective with the signing of the Statute by the President, and implementing instructions were released by message on October 4, 1996. The Security Assistance Management Manual is currently being updated as well.

Question. How many such determinations to waive the recoupment charge have been made to date?

Answer. Three determinations have been made that we are likely to lose the sale. Of the three determinations, a waiver was completed for one and the waiver for the remaining two sales are in the coordination process.

There have been no determinations/waivers based on savings which would accrue to the U.S.

Question. What was the amount of the charges that were waived?

Answer. One waiver was completed March 5,1997,in the amount of $16,774,700. Two waivers are currently in coordination, one for the amount of $17,129,862 and one for the amount of $3,410,680.

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UNCLAS
SUBJECT: CHANGES TO WAIVER PROCEDURES FOR NONRECURRING COST (NC) RECOUPMENT CHARGES CAUSED BY RECENT LEGISLATION
1. THE FY 96 DEFENSE AUTHORIZATION ACT PROVIDED BROADER AUTHORITY TO WAIVE NONRECURRING COST (NC) RECOUPMENT CHARGES BY ADDING SUBSECTION (B), TO SECTION 21(E)(2) OF THE ARMS EXPORT CONTROL ACT (AECA) (22 U.S.C. 2761(E)(2)). THE BROADER WAIVER AUTHORITY BECAME EFFECTIVE WITH THE ENACTMENT OF THE BUDGETARY OFFSET CONTAINED IN PUBLIC LAW 104-201, SIGNED BY THE PRESIDENT ON SEPTEMBER 23, 1996.
2. THE WAIVER AUTHORITY CONTAINED IN THE FY96 DEFENSE AUTHORIZATION ACT PERMITS WAIVER OF NC CHARGES WHEN
(A) IMPOSITION OF THE CHARGE OR CHARGES LIKELY WOULD RESULT IN THE LOSS OF THE SALE; OR
(B) IN THE CASE OF A SALE OF MAJOR DEFENSE EQUIPMENT THAT IS ALSO BEING PROCURED FOR THE USE OF THE U.S. ARMED FORCES, THE WAIVER OF THE CHARGE(S) WOULD RESULT IN A U.S. SAVINGS (DUE TO ECONOMIES OF SCALE) THAT SUBSTANTIALLY OFFSETS THE REVENUE FOREGONE BY REASON OF THE WAIVER.
3. THE AUTHORITY ALSO PERMITS WAIVER OF AN INCREASE IN NC CHARGES IF THE INCREASE RESULTS FROM THE CORRECTION OF AN ESTIMATE (REASONABLE WHEN MADE) OF THE PRODUCTION QUANTITY BASE THAT WAS USED FOR CALCULATING THE CHARGE.
4. THE BROADER WAIVER AUTHORITY DOES NOT AFFECT, IN ANY WAY, THE CURRENT WAIVER AUTHORITY FOR SALES TO NATO OR NATO MEMBER COUNTRIES, AUSTRALIA, JAPAN, OR NEW ZEALAND; SALES IN CONNECTION WITH COPRODUCTION ARRANGEMENTS; OR THE EXEMPTION OF SALES WHOLLY FINANCED WITH FOREIGN MILITARY FINANCED (FMF) GRANTS. THE BROADER WAIVER AUTHORITY APPLIES TO ALL COUNTRIES AUTHORIZED TO MAKE PURCHASES THROUGH FOREIGN MILITARY SALES (FMS).
5. IN ORDER FOR WAIVERS TO BE APPROVED IN ACCORDANCE WITH PARA 2. ABOVE, WAIVER REQUESTS MUST BE MADE BY THE PURCHASING COUNTRY ON A CASE-BY-CASE BASIS AND MUST BE SUBMITTED PRIOR TO ACCEPTANCE OF THE FMS LETTER OF OFFER AND ACCEPTANCE (LOA), OR LOA AMENDMENT FOR INCREASED QUANTITIES. WAIVER REQUESTS SHOULD BE SUBMITTED TO THE RESPONSIBLE MILITARY DEPARTMENT, WITH A COPY TO DSAA OPERATIONS MANAGEMENT. BLANKET WAIVER REQUESTS WILL NOT BE ENTERTAINED.
6. WAIVER REQUESTS WHICH ARE BASED ON THE POTENTIAL LOSS OF A SALE SHOULD INDICATE THAT DENIAL OF THE WAIVER REQUEST WOULD BE LIKELY TO RESULT IN THE LOSS OF THE SALE. THE COMPETING ITEM IS TO BE INCLUDED AND ITS COST IF KNOWN. THE REQUEST SHOULD BE SIGNED OUT BY A COUNTRY REPRESENTATIVE AUTHORIZED TO ACCEPT (SIGN) LOA'S. ACCEPTANCE BY THE PURCHASER OF THE LOA OR AMENDMENT WILL NEGATE THIS BASIS FOR A WAIVER REQUEST. IN ORDER TO EXPEDITE PROCESSING, WE RECOMMEND THE WAIVER REQUEST BE SUBMITTED WITH THE LETTER OF REQUEST. THE MILITARY DEPARTMENT WILL FORWARD THE REQUEST TO DSAA OPERATIONS MANAGEMENT IMMEDIATELY UPON RECEIPT.
7. WAIVER REQUESTS BASED UPON U.S. SAVINGS WHICH OFFSET REVENUE FOREGONE BY THE WAIVER MUST BE VALIDATED BY THE APPLICABLE MILITARY DEPARTMENT TO DETERMINE IF U.S. COST SAVINGS WOULD BE REALIZED IN THE UNIT PRICE OF THE EQUIPMENT ALSO BEING PROCURED FOR USE BY U.S. FORCES. THE SAVINGS MUST SUBSTANTIALLY OFFSET THE REVENUE FOREGONE BY THE POTENTIAL WAIVER. THE DETERMINATION WILL BE COORDINATED WITH THE MILITARY DEPARTMENT'S COMPTROLLER ORGANIZATION. SUCH VALIDATION SHOULD NORMALLY BE PROVIDED TO DSAA PRIOR TO THE LOA OR AMENDMENT BEING SUBMITTED FOR COUNTERSIGNATURE. THIS PART OF THE WAIVER AUTHORITY DOES NOT APPLY TO A SALE FROM STOCK, UNLESS THE EQUIPMENT IS BEING REPLACED BY PROCUREMENT OF ADDITIONAL EQUIPMENT WHICH DOD IS CURRENTLY PROCURING FOR USE BY U.S. ARMED FORCES.
8. WAIVER REQUESTS FOR INCREASED AMOUNTS DUE TO REVISED NC RECOUPMENT CHARGES ARE NOT NECESSARY. DOD POLICY IN DOD DIRECTIVE 2140.2 PROVIDES THAT "APPROVED REVISED NC RECOUPMENT CHARGES SHALL NOT BE APPLIED RETROACTIVELY TO ACCEPTED FOREIGN MILITARY SALES AGREEMENTS."
9. THIS MESSAGE WAS COORDINATED WITH THE USD COMPTROLLER. POINTS OF CONTACT FOR ADDITIONAL INFORMATION ARE MS. GAIL CROOK, DSN 664-6635, COMMERCIAL (703) 604-6635, OR MS. KAY O'BRIEN, DSN 664-6562, COMMERCIAL (703) 604-6562. BT

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SECDEF V2 3
ACTION USDP:DSAA(1) (S.F)
INFO CHAIRS(1) SECDEF-C(1)

DIA V3 0
ACTION (U.K.S)
INFO +USCINCSOC INTEL OPS CEN MACDILL AFB FL
+COMJSOC FT BRAGG NC//J2//
+SAFE

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ACTION (M)
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CHAIRMAN DISTRIBUTION REQUIRED(1) SJS-C(1)
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Question 2. Central Europe Defense Loans

a. What is the criteria for eligibility to receive the loans?

b. On what date is the loan subsidy rate calculated? How do you account for changes in the credit risk during the course of the budget cycle?

c. Why were the countries that are scheduled to receive the loans not listed in the Congressional Presentation Document?

d. You stated during the hearing that Poland, Hungary, and the Czech Republic will receive loans in fiscal 1998, but that others may be added to the list of recipient nations. Will Congress be informed when nations are added to the list during the course of the year?

Answer. a. For FMF loans, it is the Administration's general policy only to offer loans to credit worthy countries—those having a sovereign risk (credit) rating of C-minus or better.

b. The FMF subsidy percentages used for budget submission are provided by the Office of Management and Budget. During the budget cycle, if a country's credit risk rating changes prior to formal submission of the budget, we would recalculate either the (1) loan subsidy amount required for the recommended gross loan level; (2) the recommended gross loan level; or (3) both the subsidy and gross loan level.

c. Individual countries were not listed in the in the outline of the Central Europe Defense Loans program in the Congressional Presentation because it was not clear at the time which countries would be eligible for the program.

d. Yes, Congress will be informed as other countries are added to the list of those to receive loans under this program.

Question 3. What is the standard for determining whether a commission is "reasonable" under Section 39(c) of the Arms Export Control Act?

Answer. The determination of reasonableness is based on an evaluation process used by the contracting officer. The process is described in subpart 3.4 of the Federal Acquisition Regulation (FAR) and subpart 225.7303-4 of the Defense Federal Acquisition Regulation Supplement (DFARS), attached. During the process, the amount of the fee is compared with known costs of equivalent services. The fee is also limited to no more than $50,000.

225.7303-3 Government-to-government agreements.
If a government-to-government agreement between the United States and a foreign government for the sale, coproduction, or cooperative logistic support of a specifically defined weapon system, major end item, or support item, contains language in conflict with the provisions of this section, the language of the government-to-government agreement prevails.

225.7303-4 Sales commissions and contingent fees.
Sales commissions and contingent fees are allowable under defense contracts provided that the commissions or fees are paid to a bona fide employee or a bona fide established commercial or selling agency maintained by the prospective contractor for the purpose of securing business (see FAR Part 31 and FAR Subpart 3.4). For FMS, it is extremely difficult for DoD to verify the services, or the value of the services. Therefore, the cost of allowable sales commissions and contingent fees (as defined in FAR Subpart 3.4) is limited to $50,000 and must be identified to the FMS customer before, or at the time of, submitting the DoD Offer and Acceptance (DD Form 1513) to the customer.

(a) When requesting price and availability data for an Offer and Acceptance, require contractors to identify the amount of any sales commissions or fees. The fees, even if under $50,000 per contract, must be justified and supported. Except for those contracts excluded in FAR Subpart 3.4—

(1) Require the contractor to submit a Contractor's Statement of Contingent or Other Fees (Standard Form 119) (Including any such fees claimed by subcontractors);

(2) Determine under FAR Subpart 3.4 whether a bona fide employee or agency relationship exists (for the purposes of FMS, the definition in FAR Subpart 3.4 of improper influence also extends to officials of the foreign government);

(3) Require the contractor to submit a breakdown of the fee for the sales representative's services. Even if a bona fide employee or agency relationship is determined to exist, the fee must be reasonable.

(i) Whether the fee is reasonable requires an assessment of the services provided, or to be provided, compared to the amount of the fee.

(ii) The proposed fee/commission may be compared with known costs for comparable services under non-FMS contracts, or for FMS sales of comparable scope and dollar amounts for the same or similar items.

(iii) In analyzing the fee, give consideration to whether the sale is the initial or a follow-on sale. Effort for follow-on sales of additional quantities, spares, and support equipment is normally not as great as the effort for the initial sale.

(4) The chief of the contracting office must approve the contracting officer's determination—

(i) As to whether there is a bona fide employee or agency relationship; and

(ii) Of the reasonableness of the commission or fee.

(b) If the foreign customer disapproves the fee, or a portion of the fee, the contracting officer must notify the prospective contractor and request that the contractor withdraw the fee for the sales representative from the proposal. If the contractor refuses to withdraw the fee, the contracting officer notifies the department/agency activity responsible for preparation of the DoD Offer and Acceptance, which notifies the foreign customer that DoD is unable to purchase the items or services from that contractor.

(c) It may not be possible to determine whether or not the price to be paid for material or services will include sales commissions and fees (for example, when FMS requirements are to be fulfilled by competitive acquisitions). In such cases, if contract negotiations indicate that costs for a sales representative will be claimed by the contractor, the department/agency responsible for presentation of the Offer and Acceptance notifies the foreign customer as soon as possible and asks for a reply within 30 days as to whether the customer will approve the costs.

(d) Under DoD 5105.38-M, Security Assistance Management Manual, Letters of Offer and Acceptance for requirements for the governments of Australia, Taiwan, Egypt, Greece, Israel, Japan, Jordan, Republic of Korea, Kuwait, Pakistan, Philippines, Saudi Arabia, Turkey, Thailand, or Venezuela (Air Force) must provide that all U.S. Government contracts resulting from the Letters of Offer prohibit the payment of sales commission and fee unless the payments have been identified and payment approved in writing by the foreign customer before contract award. (See 225.7308(a).)

225.7303-5 Acquisitions wholly paid for from nonrepayable funds.

(a) In accordance with 22 U.S.C. 2762(d), foreign military sales wholly paid for from funds made available on a nonrepayable basis shall be priced on the same costing basis with regard to profit, overhead, IR&D/B&P, and other costing elements, as is applicable to acquisitions of like items purchased by DoD for its own use.

(b) Direct costs associated with meeting a foreign customer's additional or unique requirements will be allowable under such contracts. Indirect burden rates applicable to such direct costs shall be permitted at the same rates applicable to acquisitions of like items purchased by DoD for its own use.

(c) A U.S. defense contractor may not recover costs incurred to implement its offset agreement with a foreign government or international organization if the foreign military sale Letter of Offer and Acceptance is financed with funds made available on a nonrepayable basis.

225.7304 Source selection.

(a) FMS customers may request that a defense article or defense service be obtained from a particular contractor. In such cases, FAR 6.302-4 provides authority to contract without full and open competition. The FMS customer may also request that a subcontract be placed with a particular firm. The contracting officer shall honor such requests from the FMS customer only if the Letter of Agreement or other written direction sufficiently fulfills the requirements of FAR 6.3.

(b) Do not allow representatives of the FMS customer to—

(1) Direct the deletion of names of firms from bidders mailing lists or slates of proposed A-E firms. (They may suggest the inclusion of certain firms);

(2) Interfere with a contractor's placement of subcontracts; or

(3) Participate in the price negotiations between the U.S. Government and the contractor.

(c) Do not accept directions from the FMS customer on source selection decisions or contract terms (other than the special contract provisions and warranties referred to in Condition A.2 of the DD Form 1513).

(d) Do not honor any requests by the FMS customer to reject any bid or proposal.

225.7305 Limitation of liability.
The contracting officer must advise the contractor whenever the foreign customer will assume the risk for loss or damage under the appropriate limitation of liability clause(s) (see FAR Subpart 46.8). Consider the costs of necessary insurance, if any, obtained by the contractor to cover the risk of loss or damage in establishing the FMS contract price.

225.7306 Exercise of options for foreign military sales.
Consider changes to cost and profit attributable to pricing differences between U.S. and FMS requirements when exercising an option to satisfy an FMS requirement. Also consider such changes if the option is already identified for FMS, but it is exercised for country B requirements instead of the country A requirements for which it was priced.

225.7307 Implementation of offset arrangements negotiated pursuant to foreign military sales agreements.

225.7307-1 General.

(a) The purpose of an FMS/offset arrangement is to fulfill commitments negotiated pursuant to an FMS agreement. The general policy in fulfilling these commitments is to exempt the FMS country's products from the requirements of the Buy American Act on a case-by-case basis.

(b) Generally, it is not appropriate to establish an offset goal or objective. If in special circumstances it is in the national interest to establish an offset goal or objective, the goal or objective may be stated as—

(1) A certain percentage of the FMS agreement dollar value;

(2) A specific dollar amount; or

(3) A combination of the two.

(c) The Presidential policy statement of April 16, 1990 provides that DoD shall not encourage, enter directly into, or commit U.S. firms, to any FMS/offset arrangement. The decision whether to engage in offsets, and the responsibility for negotiating and implementing offset arrangements, resides with the companies involved. Exceptions to this policy must be approved by the President through the National Security Council. This does not prevent

Question 4. The report under Section 6(a) (4) of the Arms Export Control Act for the first quarter of fiscal year 1997 lists exports of commercially sold defense articles or services to "China" in the amount of $895,000.

- Does this listing refer to the People's Republic of China?
- What were the items sold?
- Which firm or military service was the purchaser?

Answer. Yes.

The Office of Defense Trade Controls approved 20 licenses during the first quarter of Fiscal Year 1997, All of the cases were approved under the guidelines of two particular Presidential waivers: one for the SINOSATCOM Project dated November 2, 1996 and one for cryptographic items covered by Category XIII of the U.S. Munitions List dated dune 22, 1995.

The American exporter, the item and the foreign end-user are shown on the attached chart.

AMERICAN EXPORTER	ITEM	FOREIGN END-USER
Allied Signal, Inc.	gyroscopes	Sino Satellite Communications, Ltd.
Composite Optics, Inc.	antennas	Sino Satellite Communications, Ltd.
IBM Corporation	crypto machines	China Merchant's Bank, Xian
Motorola, Inc.	crypto machines	Motorola China Electronics, Ltd.
Cylink Corporation	crypto machines	various
IBM Corporation	crypto machines	China Merchant's Bank, Nanjing
IBM Corporation	crypto machines	China Merchant's Bank, Lanzhou
IBM Corporation	crypto machines	China Merchant's Bank, Shekou Schenzhen
Lockheed Martin	crypto software	Lockheed Martin China
IBM Corporation	crypto machines	IBM China Co., Ltd.
Motorola, Inc.	crypto machines	Motorola China Electronics, Ltd.
Motorola, Inc.	crypto software	Motorola China Electronics, Ltd.
IBM Corporation	crypto machines	China Construction Bank, Fuzhou, Fujian
IBM Corporation	crypto machines	China Construction Bank, Fuzhou, Fujian
IBM Corporation	crypto machines	China Construction Bank, Nan Ping
IBM Corporation	crypto machines	China Construction Bank, Fuzhou, Fujian
IBM Corporation	crypto machines	China Construction Bank, Pu Tian
IBM Corporation	crypto machines	China Construction Bank, San Ming
IBM Corporation	crypto machines	China Construction Bank, Quan Zhou
IBM Corporation	crypto machines	China Construction Bank, Zhang Zhou

Question 5. The Department of State has not submitted the required information under Section 36(a)(7) and 36(a)(12) of the Arms Export Control Act for the first quarter of the Fiscal Year.

- When will this information be submitted?

Answer. Until recently, the Bureau of Political-Military Affairs was unaware of the new reporting requirement under Section 36(a) (12) of the Arms Export Control Act because that requirement was not included in State Department legislation, but instead was included in legislation affecting the Department of Defense.

The Department is now preparing an amendment to the International Traffic in Arms regulations to implement this mandate and will be initiating the new reporting requirement at the earliest practicable date.

RESPONSES OF MR. MCNAMARA TO QUESTIONS ASKED BY SENATOR FEINGOLD

Question 1. The President's FY 1998 budget request includes an increase, to $90 million, for the voluntary peacekeeping account, in part to provide funds for the African Crisis Response Force (ACRF). Please provide a breakdown of the cost projections for this force. In what way will the request for Foreign Military Financing complement the request for peacekeeping, with respect to the ACRF?

Answer. In FY 98, we have requested $15 million in PKO and $5 million in FMF to support countries participating in the ACRF initiative. We anticipate providing approximately $11.8 million for six battalion field training exercises and the remaining $8.2 million for communications and individual soldier equipment, water storage and treatment equipment, and packing, crating, handling, and shipping. Our request for funding under two accounts was based on the ability of those accounts to support actual program requirements. FMF was requested for defense articles and services which are immediately available from DoD stocks, such as individual soldier equipment, uniforms, tents, transportation, etc. PKO is necessary for items which DoD cannot immediately provide, such as communications equipment, vehicles, etc. Additionally, PKO—a more flexible account than FMF—provides us the ability to shift resources among requirements to meet immediate ACRF needs.

AFRICAN CRISIS RESPONSE FORCE

Question 2. What is the current status of the Administration's proposal for this force?

Answer. Reactions to the African Crisis Response Force (ACRF) have generally been positive.

As far as our African partners are concerned, thus far, Ethiopia, Uganda, Senegal, Mali, Ghana and Tunisia have committed in principle to provide troops for the ACRF. EUCOM, accompanied by Italian, UK and French military personnel, respectively, has sent teams to Ethiopia, Uganda and Senegal to review the training and equipment requirements of the battalions each has committed to the ACRF. Teams are being scheduled to visit Ghana, Tunisia and Mali. A schedule for training is now being formulated. The support of the Southern African Development Community is also important to the success of the ACRF and we are working closely with South Africa, Zimbabwe and Botswana to achieve this.

Among potential donor countries, the UK, the Netherlands, Belgium and Ireland have formally indicated their willingness to make modest contributions to the ACRF—as have several other countries (Italy, Norway, Sweden and Japan) on an informal basis. An interagency USG team headed by ACRF Special Coordinator Amb. Marshall McCallie conducted follow-up visits in February to 13 potential donor capitals in Europe and Canada. Deputy Assistant Secretary for Political-Military Affairs Michael Lemmon discussed the ACRF with Japanese officials in Tokyo in early March.

We are vigorously pursuing our diplomatic efforts, with both potential donors and troop contributors, to establish the ACRF. France has recently expressed an interest in consulting with the U.S. regarding the possibility of merging the assorted individual initiatives (UK, France, WEU) on enhancing African peacekeeping capabilities into a single multilateral effort. Issues to be resolved include the criteria for participation and the UN's role in the process. We are encouraged by progress to date and will continue to press ahead.

Question 3. The President's FY 1998 request includes $15 million for demining. How much of this will be used in Africa? In which countries?

Answer. We plan to provide approximately $7 million for Africa to sustain ongoing programs in Angola, Eritrea, Ethiopia, Mozambique, Namibia and Rwanda.

Question 4. The President's FY 1998 security assistance budget request includes an $8 million account for "human rights and democracy." What types of activities will this account be used for?

Answer. No single dedicated federal funding source currently exists to protect and promote human rights, nor to respond to, curtail, or otherwise address human rights crises around the world. This has resulted often in the urgent, ad-hoc reprogramming of funds when the U.S. has had an unanticipated crisis or mandate from international negotiations. A permanent Human Rights and Democracy Fund, as proposed in the Administration's FY 1998 request at $8 million, would provide the Secretary of State with a flexible instrument to respond to conflicts, human rights emergencies, and implementation requirements of international agreements. The Fund would be administered by the Bureau of Democracy, Human Rights, and

Labor (DRL) to promote a coherent human rights program consistent with other important U.S. foreign policy objectives.

The Fund would allow the Administration to respond directly and expeditiously to crises to prevent further human rights abuses or forestall their advent. Specific activities would include: funding for new multinational human rights and democracy initiatives, such as the war crimes tribunals, the OSCE human rights monitoring operations in Bosnia, key transitional elections, the UN Human Rights Field Operation in Rwanda and the Dayton Accord undertaking for the-Human Rights Commission in Bosnia. It is appropriate to recognize the permanence of U.S. leadership in the field of democracy and human rights by providing a specific source of funds to carry out the Administration's policies and commitments.

Question 5. The IMET program is designed to expose foreign military officials to the U.S. military establishment. Should countries whose military forces engage in human rights abuses in their countries receive this privilege? Is there any evidence that nations who do engage in such abuses have benefited from IMET training? Please provide examples.

Answer. In general, we believe countries whose military forces engage in human rights abuses should receive IMET. Our position is based on the premise that constructive engagement of the military—as opposed to severing ties—provides us with an opportunity to improve the human rights situation in a given country. In bringing foreign students to the United States, the IMET program exposes them to the American way of life, including U.S. regard for democratic values, respect for human rights, and belief in the rule of law. Additionally, all IMET students participate in the DoD Informational Program. This program provides human rights awareness through an exposure to U.S. values, human rights practices, and the fiindamental democratic principle of civilian authority over a nation's military forces. This is accomplished by a wide variety of activities, such as visits and discussions with representatives of local newspapers, radio, and television stations, legislative assemblies, and police and court officials. No other government which provides grant education and training to foreign militaries places an emphasis on human rights practices which even approaches the attention which the U.S. attaches to this subject in its military schools

IMET courses enhance the leadership skills of participants, at the same time exposing students to the U.S. principles of civil-military interaction. Certain courses also address specifically human rights principles, providing guidelines on how the military can respect these principles while accomplishing a given mission. Students trained under IMET return to their home country with an understanding and appreciation of viable alternatives to handling civil-military relations, and, as leaders within their home country's military structure, can effect change in the way future incidents are handled.

We can provide evidence that IMET has, in fact, made a difference in the way civil-military contacts are handled. In large measure through the leadership of IMET graduates, the Indonesian military, for example, has taken significant steps to address human rights concerns and increase professionalism. IMET graduates are personally involved in drafting handbooks and establishing mandatory courses on human rights training for colleagues and subordinates, an essential method of proliferating the standards and principles learned from U.S. training. IMET graduates have been prominent in investigating and punishing the failures of discipline that cause human rights abuses. From the commander of the armed forces down the policy is now clear: human rights abuses will be investigated and those responsible will be punished.

Over the last 12 months, Indonesia has experienced a series of demonstrations and riots. The Indonesian police and military have demonstrated a pattern of restraint in handling these demonstrations and riots that has minimized the loss of life. For example, after the 1996 riots in Timika, Irian Jaya, observers including NGOs, church officials, and U.S. citizens praised the discipline and skill of the armed forces in controlling the situation without causing the loss of life or serious injury. Immediately after the rioting, U.S. embassy officials met with American witnesses, who described the armed forces' handling of the dangerous situation as exemplary. The officers in senior command positions were IMET graduates.

Additionally, the handling of two hostage crises in lrian Jaya in 1996 has been lauded by the foreign attaches on the scene, the national human rights commission, and the international Committee of the Red Cross. in both cases, military leaders attempted to negotiate a peaceful release of the hostages from terrorist rebels. When outside mediators failed, the army launched successful rescue operations, the only casualties were murders committed by the rebels.

There is growing awareness in the Indonesian military that respect for human rights is a fundamental prerequisite for success. We hear this, encounter it in their training with us, hear it from human rights organizations, and see confirmation in generally improved behavior in places like East Timor and Irian Jaya. It is important that we reinforce such positive behavior, encourage those military leaders receptive to our values, and build the mutual confidence that will be crucial in future crises, not only in Indonesia, but in other countries whose military forces engage in human rights abuses.

RESPONSES OF GENERAL RHAME TO QUESTIONS ASKED BY SENATOR FEINGOLD

IMET PROGRAM

AFRICAN CRISIS RESPONSE FORCE

Question 1. What is the proposed role of IMET training in the Administration's proposal regarding the "Africa Crisis Response Force?" How does IMET relate to other forms of security assistance in the Administration's proposal for U.S. contributions to such an initiative.

Answer. The Administration is proposing to provide security assistance funding to the African Crisis Response Force (AFCR) in FY98 through the Foreign Military Financing (FMF) and Peacekeeping Operations (PKO) accounts. With this assistance the U.S. seeks to improve and expand the capabilities of African militaries to respond in a more timely manner to conflicts and humanitarian crises on the African continent and beyond. Such funding will enable the ACRF to undertake rapid deployment in international peacekeeping and humanitarian operations, assist with conflict resolution, and help prevent crises from becoming sub-regional or regional disasters.

Although the Administration is not proposing to provide IMET funding directly to the ACRF, such funding for individual ACRF members will complement ACRF's FMF and PKO by assisting those countries' troops to develop skills in peacekeeping and by encouraging greater participation in regional peacekeeping operations. The IMET program will also offer training to professionalize ACRF-member militaries and foster respect for human rights, which will encourage the ACRF to effectively handle regional conflicts and humanitarian crises. Another IMET objective, to strengthen regional friendships and cooperation, will also encourage unity among ACRF members, as well as among other countries in the region receiving INlET. This may decrease the chances of regional conflicts that may evoke ACRF mobilization.

Question 2. Does increased cooperation between and among the members of sub-regional organizations in Africa change the way the United Sates provides security assistance to them? Specifically, does the United States plan to offer security assistance directly to the Southern Africa Development Community (SADC) instead of or in addition to security assistance currently provided bilaterally to SADC member states?

Answer. The most effective way to support the Southern Africa Development Community's embryonic efforts to establish a regional security apparatus is through existing bilateral military ties and programs. Neither of SADCs regional security entities (the "Organ" and the ISDSC) are institutionally, bureaucratically or psychologically developed enough to manage a military relationship with the USG. We have very healthy bilateral military relationships with all SADC countries. We can use these relations and the legal and bureaucratic structures that support them to help foster increased regional cooperation.

Question 3. How many joint exercises between American and African armed forces have occurred during FY 1995 and FY1996? Where did these take place? How many troops and what type of activities were involved?

Answer. Note: the numbers of forces vary widely in these exercises, depending upon their scope. When specific numbers of U.S. forces are available, they are provided. A Joint Combined Exercise for Training (JCET) will normally contain 12-20 personnel (either Special Forces, Civil Affairs, or others). Its purpose is to provide area-oriented joint mission essential training for our Special Operations Forces (SOF) and other personnel that have wartime and contingency missions in Africa; it is essentially light infantry training. Exercise Related Construction (ERC) is normally designed to supplement an ongoing exercise by providing a training oppor-

tunity for a U.S. unit (i.e. Seabees, a USA Reserve unit, etc.) to construct facilities (i.e. a road, well, airstrip, etc.) as part of the exercise. A MEDCAP is designed to provide medical personnel the opportunity to practice their medical skills in an African operational environment, and is usually conducted in association with another exercise; the numbers of U.S. personnel involved are usually very small. MEDFLAGs are a larger exercise designed to provide U.S. and host military units the opportunity to work together to provide medical, dental, and veterinary care to civilians in rural villages; there can be as many as 80 U.S. personnel involved. TACAlRs, SURFEXs, and Amphibious Exercises allow tactical aircraft, surface ships, and amphibious forces the opportunity to train with host nations in an African operational environment. Field Training Exercises (FTXs) are designed to improve the interoperability of U.S. and host-country forces. FLINTLOCK exercises are designed to provide SOF the opportunity to exercise deployment, C3I, airborne operations, and combat service support functions in the EUCOM AOR in preparation for a potential contingency operation in Africa.

FY95:

EUCOM and CENTCOM

JCETS were conducted in Benin (9 U.S. personnel), Botswana (20 U.S. personnel), Central African Republic (10 U.S. personnel), Congo (11 U.S. personnel), Cote d'Ivoire (13 U.S. personnel), Djibouti (13 U.S. personnel), Ghana (15 U.8. personnel), Malawi (10 U.S. personnel), Mali (14 U.S. personnel), Namibia (2 with 17 and 10 U.S. personnel respectively), Niger (15 U.S. personnel), Senegal (18 U.S. personnel), Uganda (2 with 16 and 11 U.S. personnel respectively), Zambia (10 U.S. personnel), and Zimbabwe (27 U.S. personnel).

A MEDFLAG was conducted in Gabon and Namibia.

MEDCAPs were conducted in Kenya, Eritrea, and Ethiopia.

SHARED ENDEAVOR—Botswana. This was a company-sized FTX designed to improve the interoperability of U.S. and Botswanan forces during the conduct of infantry and airborne operations. Personnel: U.S. company-size unit.

A FLINTLOCK was conducted in Zimbabwe; 110 U.S. personnel involved.

NECTAR BEND, a company-sized FTX involving 83 U.S. personnel, was conducted in Ethiopia and Eritrea.

FY96:

CENTCOM

JCETs were conducted in Ethiopia (6 U.S. personnel), Kenya (NATURAL FIRE - 16 U.S personnel), and Djibouti (SHADOW WARRIOR - 9 U.S. personnel).

NECTAR BEND, a company-sized FTX involving 37 U.S. personnel, was also conducted in Ethiopia.

EAGER INITIATIVE was conducted in Eritrea. This was a SOCCENT - sponsored joint and combined SOF FTX; 32 U.S personnel were involved.

EUCOM

JCETS were conducted in Benin (12 U.S. personnel), Botswana (2 with 9 U.S. personnel each), Ghana (9 U.S. personnel), Senegal (9 U.S. personnel), Uganda (12 U.S. personnel), CAR (8 U.S. personnel), Congo (7 U.S. personnel), Cote d'Ivoire (22 U.S. personnel), Mali (12 U. S. personnel), Malawi (2 with 9 and 11 U. S. personnel respectively), Mozambique (12 U.S. personnel), Namibia (14 U.S. personnel), Rwanda (8 U.S. personnel), Sierra Leone (11 U.S. personnel), Kenya (IMMENSE DANCER - 14 U.S. personnel, NATURAL FIRE - 92 U.S. personnel), Zambia (22 U.S. personnel) and Zimbabwe (2 with 13 U.S. personnel each).

A MEDFLAG was also conducted in Mali.

A FLINTLOCK and ERC were also conducted in Botswana.

Question 4. How many joint exercises between U.S. and Africa forces have been budgeted for FY 1997 and proposed for FY 1998? Where will these take place?

How many troops and what type of activities are proposed for these exercises?

FY 97:

CENTCOM	Proposed
Djibouti	JCET
Egypt	FTX, ERC, TACAIR, SURFEX
Eritrea	JCET, ERC, SOF FTX/MEDCAP
Kenya:	JCET, ERC, SOF FTX, Amphibious Exercise

EUCOM

JCETS Proposed by Quarter:

2nd: Congo	3rd: Guinea	4th: Mozambique
Namibia	Niger	Botswana
Zambia	Guinea-Bissau	Malawi
Central African Republic	Mali	Rwanda
Zimbabwe	Equatorial Guinea	Cameroon
Ghana		Mauritania
Sierra Leone		Burkina Faso
		Cote d'Ivoire
		Benin

SHARED ENDEAVOR—Botswana. This is a company-sized FTX designed to improve the interoperability of U.S. and Botswanan forces during the conduct of infantry and airborne operations. Personnel: U.S. company-size unit.

FLINTLOCK exercises are proposed for 4th quarter in Namibia and Senegal. The purpose is to provide SOF the opportunity to exercise deployment, C3I, airborne operations, and combat service support functions in the EUCOM AOR in preparation for a potential contingency operation in Africa. Approximately 450 U.S. personnel.

A MEDFLAG is proposed for Benin. As many as 80 U.S. personnel can be involved.

Africa Crisis Response Initiative (ACRI)

Phase I training (there are several phases in the ACRI training plan) is proposed for Uganda and Senegal. Its objective is to achieve an initial operational capability for selected battalions to respond to humanitarian crises. U.S. personnel: 60 per phase per country (includes advance parties and site survey teams).

FY 98:

CENTCOM	Proposed
Djibouti	JCET
Eritrea	JCET, SOF FTX/MEDCAP, Amphibious Exercise
Ethiopia	SOF FTX
Kenya	SOF/FTX/MEDCAP

EUCOM	Proposed
Guinea	MEDFLAG—U.S. and host military units work together to provide medical, dental, and veterinary care to civilians in rural villages. Approximately 80 U.S. personnel.

JCETS proposed:

Zambia, Zimbabwe, Cenral African Republic, Namibia, Benin, Congo, Sierra Leone, Ghana, Mali, Guinea-Bissau, Cote d'Ivoire, Guinea, Senegal, Equatorial Guinea, Mauritania, Cameroon, Malawi, Uganda, South Africa, Botswana, Rwanda, Niger, Burkina-Faso, Swaziland, Mozambique, and Chad. The purpose is to provide

area-oriented joint mission essential training for SOF and other personnel that have wartime and contingency missions in Africa. U.S. Personnel: 12-20 per each exercise.

FLINTLOCK Exercises proposed:

Zimbabwe and Cote d'Ivoire. The purpose is to provide SOF the opportunity to exercise deployment, C3I, airborne operations, and combat service support functions in the EUCOM AOR during a contingency operation in Africa. Approximately 450 U.S. personnel.

Africa Crisis Response Initiative (ACRI)

Phase I training (there are several phases in the ACRI training plan) is proposed for Ethiopia, Ghana and Mali. Its objective is to achieve an initial operational capability for selected battalions to respond to humanitarian crises. U.S. personnel: 60 per phase per country (includes advance parties and site survey teams).

Question 5. Have U.S. and African troops been engaged in any other types of military activity over the past four fiscal years?

Answer. Yes. There are other activities conducted between U.S. and African forces. For example, there are demining training programs, Reciprocal Visits (RVs) between senior officers, Mobile Training Teams (MTTs) providing instruction (for example, the Naval Justice School conducts seminars in the role of the military in a democratic society), and the West African Training Cruise (WATC), an annual goodwill/port visit program that conducts some joint training exercises U.S. naval units/embarked Marines and naval/ground forces of host countries.

IMET PROGRAM

GOVERNMENT OF RWANDA

Question 6. Please provide a list of all individuals (including title and/or rank) from the Government of Rwanda that have been involved in, or are proposed for, any IMET activities between FY 1995 and the current year.

Answer. During FY95 and FY96, the Army and the Air Force conducted no IMET training for Rwanda. Both the Army and Air Force have courses programmed in late FY97, but students have yet to be identified.

The Navy did conduct training in the U.S. which was attended by Rwandans during FY95, FY96 and FY97. The Navy also conducted several mobile eduction team (MET) courses during that timeframe. The following is a list of students who participated in training in the continental U.S. (CONUS) or attended training in-country conducted by a MET.

FY95:

Lt.Col. Andrew Rwigamba
Maj. Richard Sezibera
Maj. Gacinya Rugumya
Cpt. Bernard Ndayisaba
Cpt. Eugene Haguma
Cpt. Augustin Macuma
Lt. Venus Makuza
Lt. Antony Ntarindwa
Ssgt. Richard Rugoza

FY96:

LT Victor Ndahiro
LT Theos Badege
LT Hubert Gashagaza
LT Francis Nkwaya
2LT Innocent Iyaburnnga
2LT Frank Kayijuka
PTE Nkumnziza Theoneste
SGT Kananura Johnson
2LT John Rurangwa
GST Shalita Denis
PTE Bajiiji Innocent
SBT Niwenshuti Jean de Dieu
LT Yahya Kamunuga
PTE Murangira John Claude
SGT Kabasha Jean de Dieu

LT Reverien Rugwizangoga
LT Alpha Kaje
2LT Faustin Gashema
2LT Kauijuka Sindayiheba
SGT John Ngarambe
PTE Ernest Nyirishinga
PTE Rutayisire Karera
2LT Augustin Hodari
SGT Athanase Manirakiza
CPL Zenon Mbera
2LT Alex Vuningoma
PTE Catera Egide
LT John Nkuriyingoma
LT Thomas Mpezamihigo
2LT John Ruzindana
2LT Felicien Ndongozi
2LT Albert Ndatsikira
2LT Venuste Twagiramahoro
2LT John Rurangwa
2LT Vianny Gabiro

(Below students are civilian prosecutors)
Muisindashyaka F. Xavier
Nsengimana R. Azaria
Habimana Casimir
Byabagabo M. Gady
Bohoze Rukara Christophe
Katisiga R. Emile
Charles R. Kabanda
Sesonga Theobald
2LT Paifique Kabanda
SGT Mukunzi Faustin
SGT Sentama Vedaste
SGT Kabasha Jean
2LT Tharcisse Idahemuka
2LT Rene Ngendahimana
Bayisenge Alexis
Karerera Aloys
Semgero Jean Damascine
Msantebahigh Sylvere
Sande Mudaheranwa John
Habimana Jean Damascene
Ahoriikomeye Raflki
Muhisonhi Rose
Mutabazi Ladislas
2LT Hodari Augustin
Cuicredia Tigrius
Mukeshimana Leonard
Mushumba Jean Baptiste
Gatabmiye Sylvie
Safari Isaac
Tumusiime Naboih
Mulenzi T. Symplice
Kanyarwunga J. Claude
Rukundo Anastase
Rukema Gab
Semanzi Samuel

FY97:

Maj. John Zigira

RESPONSES OF GENERAL RHAME TO QUESTIONS ASKED BY SENATOR WELLSTONE

Question 1. There have been questions raised about using IMET as a means to sanction recipients for human rights abuses in their countries. Should countries whose military forces are engaged in human rights violations receive U.S. military training and education?

Answer. Suspension of IMET training frequently is used by the U.S. Government as a sanction in cases where the USG holds a recipient government responsible for promoting or condoning human rights abuses. In cases where the IMET recipient neither promotes nor condones such abuses, however, it would be counterproductive to suspend training designed to impart professionalism, discipline and respect for human rights to members of its armed forces.

Question 2. The School of the Americas at Fort Benning has been criticized for the manner in which it conducts human rights instruction. This school does carry out some training of IMET students. What steps have been taken to ensure that graduates do not use their training for anti-democratic purposes? What changes in SoA admission policies have been instituted to ensure that SoA no longer enrolls military personnel who have been implicated in human rights abuses? Is there any evidence that SoA graduates demonstrate greater respect for human rights than their peers?

Answer. Past criticism of the School of the Americas has centered upon the relative lack of human rights instruction rather than the manner in which it is conducted. This situation has changed. Each of the courses currently offered by the School contains a block of instruction on the subject of human rights. This instruction is conducted in a professional manner by qualified individuals.

Students selected to attend the SoA are thoroughly vetted by the Security Assistance Office and other elements of the local U.S. embassy to identify any evidence of prior criminal activity or human rights abuse. Subsequent to graduation, there is no mechanism available to monitor the students' activities apart from information provided on a voluntary basis to the School's alumni Organization.

Although no data is available to prove that SoA graduates demonstrate greater respect for human rights than their peers, we are confident the students leave the School with an understanding of the key importance of human rights in building and maintaining free and democratic societies and a healthy appreciation for the importance the U.S. Government ascribes to this particular area of instruction.

APPENDIX 5

HEARING OF MARCH 13, 1997

RESPONSES OF MR. HOLUM TO QUESTIONS ASKED BY SENATOR GRAMS

Question. In recent months, we have heard numerous comments from Administration officials faulting the Congress for reductions in the International Affairs budget. As a result, I have tried to give some context to each of the budget requests that the Subcommittee has reviewed during this series of hearings.

In the case of ACDA, the President's FY 1998 budget request is more than $1 million less in actual dollars than his FY 1993 budget request. Although ACDA's ending levels are obviously much smaller than other foreign affairs agencies, this means the current budget request is about 3% below what it was five years ago, even before taking inflation into account.

This seems to indicate that it is not just Congress, but also the Administration which has attempted to hold down ACDA's spending. Do you think that is a fair assessment?

Answer. The Administration is requesting $46.2 million for ACDA in FY 1998. This amount does reflect a reduction of approximately 3 percent below the FY 1993 budget request. As noted, this reduction represents the systematic right-sizing of ACDA within the overall efforts of the Administration's National Performance Review and other presidential streamlining initiatives. Thus, ACDA, working with the Administration and the Congress, has been able to achieve economies and efficiencies.

Alternatively, coming off the successes of the indefinite extension of the Nuclear Non-Proliferation Treaty and the signing of the Comprehensive Test Ban Treaty, ACDA's current budget request represents its bare bones requirements to fulfill its ongoing activities and implementation of new agreements. Therefore, ACDA needs to be fully funded in FY 1998.

Question. I have heard some seemingly conflicting accounts of how ACDA is integrating Presidentially-appointed commissioners and their attendant staffs into ACDA to save money by consolidating the necessary administrative support. In your FY96-97 Authorization Request, ACDA claimed that "The various Commissions and their Commissioners were folded into their related Bureaus."

But in the July 1995 Pell Report, ACDA revised this statement to indicate that it was "seeking to reduce the number of offices and divisions, and to fold the various commissions and their commissioners into their ACDA related bureaus."

What exactly is the status of the effort to streamline the various Commissions?

Answer. The July 1995 Pell Report to which you refer included information on the operations of ACDA through the end of 1994. In 1994, we were "seeking to reduce the number of offices and divisions, and to fold the various commissions and their commissioners into their ACDA related bureaus." As reflected in the FY 1997 Authorization Request submitted to the Congress in February 1995, ACDA consolidated the various commissions with their related bureaus. For example, the commissioners of the Joint Compliance and Inspection Commission, the Special Verification Commission, and the Standing Consultative Commission now report to the Director through their respective bureau heads, instead of directly to the head of ACDA. This arrangement has allowed for the full integration of each commission with the ACDA Bureau with which it shares substantive expertise and from which it derives its backstopping support. This streamlining measure increased ACDA' s efficient and effective use of administrative resources required for the support of those commissions.

Question. ACDA's own Inspector General found, in August 1995, that ACDA plays a secondary role to other agencies and departments, saying that "If differences [between ACDA and other agencies] are not worked out there [at the working level], chances are the policy position of other organizations with higher perceived interagency status and decision-making impact will prevail" and that "the ACDA Director will only be as effective as the President and Secretary of State desire."

How have you, as ACDA's Director, addressed this problem?

Answer. The 1995 Report of Inspection of ACDA by the Office of Inspector General (hereafter referred to as the IG Report) noted that: "Allowing for the occasional glitch, ACDA's role in the policy formulation process and the mechanism for supporting negotiations is well understood and generally works smoothly. Policy ques-

tions that need resolution move up the ladder in a progression from the division, through the bureau, to a front office policy coordinator, and, if necessary, to the Director, where accessibility is the norm, not the exception."

The IG Report also notes that "Guidance-support units within ACDA draft initial formal instructions for the negotiators, demarches for bilateral communications, or policy papers, and obtain the necessary clearances within ACDA and from other agencies. Much of the Agency's efforts and effectiveness in coordinating with the interagency community lie at the working level." I would add the point that if an issue is not resolved at the working level -- and it is important enough -- I can take the issue to more senior levels in the Government, including the Secretary of State, the National Security Advisor, and the President. On a number of occasions, ACDA has taken positions which ultimately were accepted at senior levels, notwithstanding initial resistance.

The IG Report made this very point when it stated that "an independent arms control advocacy role should be preserved. The authority currently given to the ACDA Director to communicate policy advice and recommendations directly to the President, the Secretary of State, the National Security Council (NSC), other Executive Branch officials, the Congress, and the public at large is central to meeting this responsibility." "Because of ACDA's unique focus," the Report explains, "it is able to provide the President and senior policymakers with an unadulterated perspective on the benefits and risks of arms control measures without having to subordinate its views to competing foreign policy or other considerations."

The IG Report also concluded that "ACDA's strength at the working level lies in its expertise, institutional memory, and depth of knowledge. These, plus the advantage of chairing many of the support groups, give it greater weight at this level. Also, working closely with the special commissioners allows ACDA to coordinate with them early on. One of ACDA's important roles in the interagency process context is to provide solutions from the unique perspective of arms control, with no competing considerations. Also, looking ahead to the implementation phase of the agreement, another key ACDA function, the Agency tries to ensure that the final treaty will be verifiable."

The IG Report further concludes that "That independent voice has made a difference. ACDA was virtually the only agency in the U.S. Government which pushed for a Chemical Weapons Convention. Almost singlehandedly, ACDA kept alive the prospects for a comprehensive nuclear test ban treaty. ACDA was the only persistent advocate for a moratorium on nuclear testing, and was one of the few to see the implications of that moratorium on prospects to extend the Nuclear Nonproliferation Treaty (NPT). In the face of strong opposition from cabinet-level departments, ACDA convinced the Administration not to certify Pakistan's nuclear program, resulting in the cessation of U.S. assistance as called for by the Pressler amendment to U.S. foreign aid legislation." Moreover, "The leadership role [ACDA] played in securing indefinite extension of the Nuclear Nonproliferation Treaty (NPT) is an outstanding example" of ACDA making "a difference in important policy areas."

As these examples demonstrate, ACDA has a strong history of impacting the development of U.S. arms control and nonproliferation policy in significant ways. The point is not that ACDA always be successful in winning over other agencies, but that it continue to present the strongest case for arms control and nonproliferation from an unconflicted perspective at the working level and up to the very highest levels when necessary. In this way we ensure that our national security interests are best served in an efficient and economical manner.

Of the 28 recommendations included in the 1995 Inspection Report, all 28 are resolved to the satisfaction of both ACDA and the IG, and all but one are closed. The single remaining recommendation will be closed as of September of this year, as part of ACDA's submission of information to the Congress about allocating costs among various Agency goals and objectives under the Government Performance and Results Act.

Finally, in her 1997 testimony before the House Appropriations Subcommittee on Commerce, Justice, State and The Judiciary, and Related Agencies, the Inspector General noted that "...ACDA has time and again provided the sole voice on debates, on issues, that no one else in the community has provided." In her 1996 testimony before this same subcommittee, the Inspector General observed that "...ACDA has made a difference in important policy areas, and... an independent arms control voice is essential to prevent these issues from being subsumed in the priorities of bilateral relationships. ACDA's leadership in securing indefinite extension of the nonproliferation treaty is just one such example. We concluded that any restructuring of the foreign affairs agencies should continue to include an independent arms control advocate...."

Question. In July 1995, the Pell Report, you heralded the value of ACDA as an independent, technically competent arms control agency. In February of 1995, ACDA declared to Congress its intent to, quote, ''strengthen its scientific and technical capabilities, coupled with new authority to hire specialized technical and expert personnel.'' Yet in August of 1995, the Inspector General concluded that ACDA's managers have not considered it necessary to increase the proportion of scientific or technical specialists on its staff

When you look at an internal review of ACDA's staff in 1994, it shows a total of 80 academic degrees in political science, government and international relations, and that was compared to 57 degrees in the hard sciences. Now the IG Report said again, quote, ''the agency's instinct to duplicate policy expertise already found in other agencies, as well as a disinclination to give higher priorities to scientific expertise, removes a creditable additional argument for its existence.'' So with that, what steps have you taken since then to reverse this imbalance, and also to try and insure the majority of ACDA's personnel are trained scientific or technical specialists?

Answer. In contrast with the internal review of 1994 when there were 80 employees with academic degrees in political science, government and international relations and 57 employees with degrees in the hard sciences, today there are 76 employees with degrees in political science, government and international relations and 81 employees with degrees in the hard sciences. This trend toward emphasizing the need for scientists and technical experts is reflected in ACDA's current plan to fill an additional five positions in the hard sciences. Our emphasis on maintaining specialized technical and expert personnel is also reflected in the fact that approximately 60% of ACDA's employees have a graduate degree or higher, with 80% having at least a baccalaureate degree.

RESPONSE OF MR. HOLUM TO QUESTION ASKED BY SENATOR FEINSTEIN

Question. The Ambassador from South Korea indicated to me his country's concern about an agreement for Taiwan to store their nuclear waste in North Korea. Could you tell us what you know about that agreement and what precautions are being taken?

Answer. We first raised this issue with Taiwan Atomic Energy Council officials in December, 1996. These officials confirmed that they had heard a rumor of a deal involving the Taiwan Power Company (Taipower), but they assured us that before any such shipment could take place, a license would be required and that this would provide an opportunity for review.

We subsequently had numerous discussions with various officials from Taiwan. We have consistently emphasized that we do have concerns about this shipment based on regional sensitivities, and that we want to ensure that (1) the transfer does not interfere, even inadvertently, with the IAEA implementation of the U.S.-DPRK Agreed Framework; and (2) that the transfer conforms to the safety and environmental aspects of the IAEA's Code of Practice on the International Transboundary Movement of Radioactive Waste.

We have consistently urged Taiwan to discuss all aspects of this shipment with the IAEA. We understand that a team from Taipower visited Vienna last month for preliminary discussions, and we expect more consultations to follow.

As we understand that no uranium or plutonium is involved, we have no reason to believe that this deal is a proliferation concern. However, Taiwan has invited the IAEA to make a special visit to Taiwan to confirm this, and we expect the IAEA to accept that invitation. We hope that the IAEA would be invited later to visit the disposal site to confirm the safe disposal of the material.

APPENDIX 6

HEARING OF APRIL 9, 1997

RESPONSES OF MR. SUMMERS TO QUESTIONS ASKED BY SENATOR LUGAR

Question. 1. **IDA lending and nuclear programs.** I believe the IDA has been a constructive institution for assisting the world's poorest countries. But, for many years, large portions of IDA lending have been going to China, India and Pakistan, three states with expensive nuclear weapons programs. It can be argued that World Bank/IDA lending to these states (and others) enabled them to divert or use their own resources to develop a nuclear weapons programs harmful to nuclear non-proliferation efforts and to general peace and stability in the world.

Do you believe it would be a wise course to condition IDA funding to those states with expensive nuclear weapons industries and to re-direct those same IDA resources to other poor states, say in Africa, who chose not to undertake expansive weapons related programs like those in China, India and Pakistan?

Answer. The World Bank has a policy which prevents its lending to military entities in borrower countries or for nuclear projects of any kind. We continue to work with the Bank on ways to reduce military and other unnecessary expenditures through the Country Assistance Strategy and Public Expenditure Review processes. We also are working with the bank to encourage civilian monitoring of military expenditures in borrower countries. Military spending in IDA countries has fallen from 3.1 % of GDP in 1990 to 1.9% in 1995. The U.S. also has strongly advocated that the IMF pay attention to the quality of fiscal adjustment by encouraging program countries to cut unproductive expenditures, including military spending, and to shift more resources to primary education and health care and to essential capital investment.

The US has been a strong advocate of reducing or eliminating concessional lending to large blend countries, particularly China and India, which have substantial access to international capital markets. As a result of these efforts, China will be graduated from IDA in FY99 and India will receive a smaller share of future IDA funds.

Question. 2. **Market reform and MDB lending.** Some have argued that the availability of large scale MDB lending provides a reason for slowing or opposing market reforms in potential recipient countries. The argument goes that so long as international public lending is available, why bother to make the economic reforms that would otherwise be necessary to attract private capital markets. This may be less true for IMF lending but is it valid for the so-called IFIs? The end result may be retarded economic reforms and smaller private investment activity and slower economic growth.

How do you react to this argumentation?

Should the IDA and other international financial institutions only lend, or lend primarily, to those countries which adopt market-based policy reforms because doing so will help them shift to less reliance on international public capital and more on international private capital?

Answer. Private investment in developing countries has skyrocketed — from $43 billion in 1990 to $230 billion in 1995, a fivefold increase in six years. While private flows now dwarf multilateral and bilateral official flows, as recently as five years ago official flows were larger than private flows. However, many countries have been left out. Over 80% of private investment flows between 1990 and 1995 went to only 12 developing countries. Over 140 countries have little or no access to foreign private capital.

The MDBs provide funding and leverage to encourage more countries to undertake the market building reforms necessary for private-sector led growth. In the longer term, IFI projects to improve health, education and basic infrastructure lay the ground work for growing markets in the future. Poor countries just don't have the access to private capital to adequately fund these investments. Getting the economic reforms necessary to attract private capital is difficult and requires short term sacrifice for long term gain. MDB lending conditioned on economic reforms provides the best leverage to induce free-market reforms in poor countries.

One of the most important lessons of development over the last twenty years is that the policy environment plays a critical role in aid effectiveness. Study after study have shown that aid is most helpful when the proper economic and policy conditions exist. Multilateral lending institutions have generally been more selective

than have bilateral programs and have formally linked more of their assistance to specific steps toward economic reform. In recent years this trend has accelerated; for example, the World Bank's International Development Association (IDA) now directs 84% of its lending to countries rated average or above in terms of their economic reform record.

It is imperative that the MDBs direct the vast majority of their resources to countries pursuing the type of economic policy reforms that will allow them to use their aid most effectively. This is the best use of limited MDB resources and provides an incentive for countries to reform. In some cases, however, technical assistance designed to help a country implement necessary reforms or loans to a specific sector may have a positive impact despite a poor policy climate. In general, however the administration supports the current trend in the MDBs to providing the vast majority of new loans to countries pursuing strong economic reform programs.

Question. 3. **IDA and Graduation.** What are the criteria utilized to determine when a country graduates from IDA lending eligibility?

How many countries have graduated since the IDA was created?

Have these criteria changed over time?

Answer. Eligibility for IDA and the other concessional windows is based on annual per capita income which this year is $975. 21 countries have graduated from IDA and three — Korea, Turkey, and Botswana — have become IDA donors.

The ultimate goal of any MDB is to graduate its members. Particularly in the soft windows, it is important that once countries are able to attract foreign capital and service market-based loans, they not draw scarce concessional resources away from poorer countries who require subsidized funds. Transparent graduation policies are an important part of ensuring that concessional funds go to those countries that need them most. It is important to note, however, that the issue of graduation is a complex one and that "one-size-fits-all" graduation criteria may not always be appropriate. China, for example, would continue to be eligible for concession lending from IDA for the foreseeable future if only per capita GDP were considered. Nevertheless China will graduate from IDA in 1999, largely because of persuasive U.S. arguments that China no longer needs IDA because of its access to international capital markets. It is important that overly restrictive graduation policies not hamper efforts to limit funding only to those countries that need it most.

Question. 4. **IFIs and US Economic Benefits.** I understand that the return to the U.S. of participation in the various MDBs exceeds our investment in them by some factor favorable to the U.S.

Can you provide the Committee with some authoritative data on the economic benefits, such as procurement, to the United States of U.S. participation in the MDBs?

In other words, is there a working ratio of U.S. investment to U.S. return in the MDBs and what is that ratio?

How is it determined, i.e., what is the methodology involved?

Answer. Overall, U.S. firms receive about $3.0 billion per year in business financed by the MDBS. Of this about $2.0 billion is in direct procurement on MDB contracts and $1.0 billion is MDB investments in U.S.-led private sector projects. This is more than double our annual scheduled payments to the MDBS. However, direct procurement is not the only yardstick for judging the benefits of IDA or any MDB. The goals of these institutions is to assist countries in achieving sustainable development, broad-based economic growth, and poverty alleviation. This in turn creates stable trading partners for the United States and heads off crises requiring US resources.

IDA graduates purchased $61 billion in U.S. exports in 1995, up from $47 billion in 1994, and had Eximbank exposure of $10.7 billion. Current IDA borrowers purchased $26 billion in U.S. exports in 1995. Growth in IDA borrowing countries has also been accelerating. Growth doubled from 4% in 1990-1991 to 8% in 1994-1995. For IDA borrowers in Sub-Saharan Africa, the growth increase during the period was from 1% to 4%.

Question. 5. **Arrears.** Please provide the Committee with detailed information on current U.S. arrears in the MDBs?

Does the administration have a plan to erase, phase out or eliminate these arrearages? If so, what is that plan?

Answer. As of today our arrears are $862 million broken down as follows: IDA ($234 million) Asian Development Fund ($237 million), the Global Environment Facility ($140 million), The Inter-American Bank's Multilateral Investment Fund ($178 million), and the African Development Bank ($50 million).

Our FY98 budget request represents the first year of a three year strategy to pay down our arrears. This strategy would clear slightly more than 1/3 of our outstanding arrears in FY98, including all remaining IDA arrears, and then would clear our

arrears to other institutions in roughly equal portions in FY99 and FY2000. This strategy would require IFI appropriations levels of approximately $1.5 billion in FY98-2000, which would then drop to about $1.2 billion per year. This strategy is endorsed by the Balanced Budget Agreement with the provision which allows the discretionary caps to be adjusted to accommodate arrears clearance for MDBs and the UN.

Question. 6. **MDBs and a changing world.** Most of the MDBs were created at a time when international private capital markets didn't exist or were in their infancy. That situation has now changes and more capital flows to developing economies from the private sector than from public sources.

Given this significant change, what is the driving rationale for continued high level funding of the MDBs?

In short, has the rationale, logic and role of the international financial institutions changed over the years and if so, in what way.

Please provide some details.

Answer. The huge increase in international capital flows to the developing world and the transition countries in recent years is bringing enormously beneficial results. We must not, however, lose sight of the fact that foreign direct and portfolio investment is largely concentrated in about one dozen developing and transition nations, and - within these countries - is heavily focused on a few sectors, primarily electric power and telecommunications. In most Sub-Saharan African nations, for example, foreign investor interest remains extremely limited.

The challenge and the need is to broaden the number of countries and sectors which can attract foreign investment. This will require sweeping macro-economic and sector reforms - including privatization - and changes in trade, investment and foreign exchange regimes. The MDBs are contributing significantly to this process, via, policy advice and lending, co-financing with private investors, and the provision of political and other types of risk insurance. Finally, there are many sectors - such as primary health care, basic education, rural roads, and peasant agriculture - which are unlikely to attract major foreign investment in the near or medium-term, but are essential to development.

RESPONSES OF LAWRENCE SUMMERS TO QUESTIONS ASKED BY SENATOR BIDEN

Question. 1. **Bosnia and the World Bank.** Discuss the World Bank's program for the economic reintegration and reconstruction of Bosnia. Include in your discussion: a specific account of the problems presented by the situation in Bosnia at the time of the cease-fire, the specific Bank programs now in place, and the relationship of the Bank's programs to the overall goal of restoring stability to the area.

Answer. Estimates of the overall damage from the war are $20-40 billion. Immediate reconstruction financing needs were estimated at $5.1 billion for infrastructure rehabilitation, restoration of essential services, and economic renewal to come from international institutions and donor countries. So far the Bank has approved $408 million for projects in Bosnia, of which about 3/4ths has been disbursed, and the international community has provided $500 million in cofinancing. Bank projects thus far have provided financing to a wide range of sectors infrastructure, productive and social — but in the future will focus on institutional and policy reform which will lay the groundwork for future growth. It is only by establishing an institutional environment conducive to private sector growth that economic and social stability can be made sustainable for the long term.

Question. 2. **EBRD and Chernobyl.** Provide a fuller account of the World Bank's and the EBRD's role in the closing of the Chernobyl nuclear reactor. Why is such assistance required, what are the economic problems to the overcome, and what are the current prospects for success?

Answer. The EBRD is currently evaluating a request for financing for completion of two nuclear reactors in Ukraine - Khmelnitskyy unit 2 (K2) and Rivne unit 4 (R4). Construction of the Soviet-style units is 70% complete, however, substantial safety upgrades are necessary to bring the plants up to international standards. The Ukrainians consider EBRD support for the nuclear completions to be very important to enabling them to close Chernobyl by the year 2000. However, the U.S. will only support EBRD financing if the completions meet its due diligence requirements.

If EBRD support is not appropriate for the completion of the K2/R4 reactors, the G7 will work with Ukraine to find alternatives to meet its energy needs upon Chernobyl's closure. In addition, as a quid pro quo for Ukrainian agreement to close

Chernobyl by 2000, at the Denver Summit, the G7 has pledged $300 million toward building a new outer shell to encase the damaged Chernobyl 4 nuclear reactor. The G7 will also hold a pledging conference this fall in an effort to raise an additional $300 million from public and private sources toward the estimated $750 million total cost of the project. The EBRD will administer the funds and oversee the project.

Question. 3. **Global Environment Facility and Russia.** Duscuss the effect of our $140 million in arrearages to the Global Environmental Facility on its programs, with specific attention the program to phase out ozone depleting substances in Russia. Explain the potential effects on U.S. producers of alternatives to ozone depleting substances.

Answer. Because of significant arrears, primarily owed by the United States, the GEF has had to slow down its output of projects and technical assistance. The impacts have been spread among each of the GEF's four main work areas —ozone protection, preserving biological diversity, avoiding climate change, and cleaning up endangered international water bodies. The U.S. is the leading recipient of GEF procurement contracts, so restrictions in ozone and other project development would tend to hurt U.S. suppliers more than other countries.

RESPONSES OF LAWRENCE SUMMERS TO QUESTIONS ASKED BY SENATOR WELLSTONE

Question. 1. **Poverty among women.** What is the World Bank's plan to address intractable poverty among women in the global South?

Answer. The World Bank's poverty reduction strategy has numerous facets from support for education, health care and agriculture and microcredit to improvements in basic services and infrastructure. In education, the Bank has made a commitment to achieving universal primary education and full gender parity by the year 201 0. To achieve this goal it is supporting girl's education projects in countries such as Mali, Mozambique, Bangladesh and Pakistan. Infrastructure improvements also are important for reducing poverty among women. A water and sanitation project in Nepal for example will reduce the amount of time women will have to spend carrying water, increasing the time they have to spend on more productive activities.

Question. 2. **Mainstreaming gender issues.** World Bank public statements increasingly refer to efforts to main street gender issues within the Bank. Yet recent documents such as the Mexico Country Assistance Strategy (the Bank's five-year plan for Mexico), which was approved by the World Bank Board of Directors, fails to even mention women. Outside of health and education programs, what efforts has the Bank undertaken to ensure that gender issues are considered in its major private sector, infrastructure, structural adjustment and sectoral loans?

Answer. The World Bank is incorporating gender issues through a variety of initiatives including gender toolkits for agriculture and infrastructure project teams, gender workshops for regional staffs, a gender home page on the Internet, and a Gender Consultative Group comprised of gender specialists from a variety of fields which meets periodically to discuss overall Bank efforts on gender.

Question. 3. **Spending on Gender.** How much funding is being devoted to women's issues & problems as a percentage of overall World Bank lending?

Answer. It is difficult to segregate in a meaningful fashion the amount of lending which goes to women's issues since lending generally affects both genders simultaneously.

Question. 4. **The World Bank & Poverty.** The basic mission of the World Bank according to the Strategic Compact released on February 13 by President Wolfensohn, is to reduce poverty, yet poverty is one the rise worldwide. What evidence is there that World Bank and IMF loans have helped to decrease poverty in borrowing countries, particularly poverty among the poorest of the poor? If the Bank and the Fund are failing to help reduce poverty, why should the U.S. taxpayer provide funds to the bank?

Answer. The U.S. role in guiding the Banks in the last 50 years has focussed and shaped their operations, tangibly improving the lives of millions in the developing world while creating new markets for U.S. business. Even though it may not always appear so, life in even the poorest countries has improved dramatically in many respects, thanks in large part to the efforts of the IFIS. Since 1970, in the poorest countries (with incomes less than $700 in 1993):

- Fertility rates and infant mortality rates are both down 40%.

- The number of children enrolled in secondary schools has nearly doubled from 22% to 42% and primary school enrollment has increased 36%.
- Literacy rates have risen 33%.
- Life expectancy has increased from 54 to 62 years.
- The percent of people with access to safe drinking water has risen from 22% to 69%.

These advances in human potential and well-being would not have happened without IFI support. Examples of on-the-ground achievements in the last five years show how specific IFI projects have made millions of people tangibly better off in ways that lay the ground work for future self sustaining growth. Some of these projects:

- Delivered 6 million textbooks to primary school pupils in Africa.
- Constructed 7000 classrooms in Pakistan doubling female enrollment in rural areas.
- Reduced child malnutrition in 6000 Indian villages from 1 in 3 to 1 in 6.
- Increased contraception use by up to 50% in high population areas in Africa and South Asia through community-based distribution programs.
- Provided vocational training to 23,000 women and youths in Bolivia.

Question. 5. **Conditionality and local production.** What has been the impact on local production (not export production) or World Bank and IMF loans and attendant conditionality? On local businesses?

Answer. While there are no overall statistics directly linking local production and IFI conditionality, the record of countries who have followed reform programs designed with the help of the IMF and World Bank clearly demonstrates the benefits of reform.

To provide incentives for poor countries to undertake economic reform, IDA is increasingly concentrating its resources on good performers. 84% of IDA lending over the last four years went to countries rated average or above on economic reform. This selectivity, along with IDA adjustment loans and technical assistance, is.beginning to pay off. Overall growth in Africa for example has increased from 1% to 4% since 1991. Among the good performers, Uganda has been growing at 10% and Ghana, Cote D'Ivoire and Senegal have had growth in the 6% range.

Economic growth is the key to improving living standards and production in all sectors of society from urban small business to farmers. For example, eliminating state controlled commodity marketing boards and freeing agricultural prices has been a critical step in improving the incentives for agricultural production. Higher prices for farm goods and access to export markets raise the incomes and production capacity of farmers who often make up the majority of the productive population in poor countries.

Question. 6. **World Bank lending and international conventions.** How is the World Bank ensuring that its lending doesn't undermine international conventions like the Climate Convention and the Biodiversity Convention?

Answer. The Bank is active in promoting cleaner energy use and protection of biological diversity, as well as facilitating activities that support other international agreements in sectors like marine pollution. The Bank has established policies in crucial areas, such as energy conservation and the power sector, the forest sector, natural habitat, and water resource management. Through a broadly consultative process, it is currently preparing a detailed energy and environment strategy to help 'de future Bank assistance. Through its "Global Overlays" Program and other programs, it is creating and applying cutting edge economic analysis to identify and account for global impacts in development projects. It has also been a leading partner to dozens of countries in developing national environmental action plans, and it is financing numerous direct projects that help countries fulfill international environmental agreements.

Question. 7. **Environmental Procurement Criteria.** What environmental and social criteria will apply to Northern government funds for projects where Northern corporations are acquiring procurement contracts for projects in the global South with World Bank funds?

Answer. The Bank has an extensive set of policies on environmental and social issues that apply uniformly to all corporations, regardless of their national affiliation. The U.S. has worked to ensure that all firms compete in free and fair conditions through transparent international bidding.

Question. 8. **Accountability and Transparency.** What are the World Bank's plans to increase its public accountability and transparency in the North and South?

Answer. New information disclosure policies allow NGOs and groups directly affected by Bank projects to participate more fully in project design and implementation. Input from affected groups is now routinely incorporated in the project design

process and the Country Assistance Strategy process. Combined with new inspection departments and independent evaluation units, this new openness is making the Banks more accountable to the constituencies they serve. New public information initiatives include making more documents available on the web and the hiring of special staff to deal more closely with the NGO community.

One sign of the important change going on within the Bank is the candid self-critical evaluations of Bank projects and practices which are coming out of the Banks' own internal auditing departments. While it may seem counter-intuitive that reports highlighting Bank problems are a sign of progress, it is significant that internal mechanisms now have the latitude to make tough public evaluations of their institutions. These empowered evaluation bodies will make it easier to learn from mistakes of the past and evaluate the effectiveness of recent reforms on new project performance.

Question. 9. **World bank vs. Private financing.** Why is the World Bank financing infrastructure projects that the private sector is willing to finance?

Answer. In general, the World Bank should not finance projects which the private sector is willing to finance on similar terms and with similar conditions. There are cases where the bank lends to projects which the private sector would finance only at unacceptably high rates. The Bank can also add value if, via its participation, it is able to ensure that higher social or environmental standards are imposed than would be the case under totally private financing.

APPENDIX 7

MARKUP HEARING OF JUNE 12, 1997

PREPARED STATEMENT OF SENATOR GRAMS

Mr. Chairman, as the Subcommittee Chairman with jurisdiction over this bill before us today, I want to thank you and congratulate you for your efforts, as well as the efforts of Senator Biden, in assembling what I believe to be a well balanced package--not only on the annual State Department Authorization issues, but on the effort to reorganize the State Department and to finally reach an agreement on the payment of the UN arrearages. This is a significant package that represents a lot of hard work. In one or more ways, all of us might wish that it could have been a better package, but it is a good faith effort to accommodate the many interests on this Committee. There will be plenty of time in the remainder of this Congress to oversee what we will have done today. I want to reassure my colleagues who have concerns in any of these areas, that I certainly am open to hearings in the future that would closely examine the implementation of any of the changes we have made.

I commend the Chairman for his efforts to reform and consolidate some of our foreign affairs agencies. While many of us may have preferred to go farther, what we have here today is achievable now and hopefully will lead to further streamlining of all cabinet departments in the future. Folding ACDA, USIA and the International Development Cooperation Agency into the State Department will better coordinate and improve the functions of these agencies--not end their missions. AID will also be strengthened under the bill.

Mr. Chairman, the section of the bill on which I have had the most involvement is Division C, the section which provides a three-year payment of $819 million of arrearages owed to the United Nations in conjunction with the achievement of reforms, or benchmarks, that will help us improve the vitality and functions of the UN. As the UN Delegate to the UN General Assembly, along with our distinguished former colleague Senator Pell, I traveled to the UN on several occasions and was convinced that reforms need to be undertaken to streamline and improve the organization. There was a bloated bureaucracy and no mechanisms to control or account for spending. While most UN officials recognize the need for reforms, and in fact, had started to work to achieve some of them, I, and many of my colleagues in the Congress, believe that we need the discipline of actual benchmarks tied to the repayment of arrearages to provide the impetus needed to achieve them. We have seen how difficult it is to streamline our own government. This is greatly complicated in an international organization with so many countries involved in these decisions.

There have been tough, lengthy negotiations on this package over the last many months. I will be the first to say that it is not perfect. I would have preferred a lot more in the way of reforms and budget discipline. But I believe that what we have is a good agreement by Committee Republicans and Democrats and the Administration.

Some would prefer the payment of the arrearages in one or two years. Some would prefer that they are never paid and that the UN pay us what is owed us. Some want to expand the mission of the UN and US participation in the UN. Others want to terminate US participation. When you look at the extremes, I strongly believe that we have put together a very good package.

Tomorrow I will travel to the UN to join Ambassador Richardson to brief Secretary General Kofi Annan and Permanent Representatives of many of our allies' delegations. I know they will have concerns about the package, but I hope they will be convinced that we do want to put the arrearages issue behind us and work with them to achieve the reforms that all of us believe will revitalize the UN.

I strongly believe the UN mission is important, but I have also been concerned that over the past years, support among the US public has been eroding for the UN. I firmly believe that this package will streamline and improve the UN to the point where we can win back public support.

I would urge my colleagues to support the entire package, and, especially to understand how difficult it was to come up with an agreement on the arrearages. I remind my colleagues that the House has no payment of arrearages in its State bill.

Therefore, while I respect the honorable intentions of my colleague from Indiana, I urge you to oppose his amendment on the UN.

Thank you again, Mr. Chairman, for your efforts to craft an excellent package.

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